



Adviser Edge
Investment Research

National Property Sector Review

Independent Assessment



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How the Report was Collated

The primary source of data used in this report came from the following sources:

- Property Council of Australia;
- Commercial Property Monitors Pty Ltd;
- CB Richard Ellis;
- Australian Bureau of Statistics;
- Bloomberg News;
- Australian Property Monitors; and
- SQM Research.

As in the residential property market, reliable and timely data is often hard to come by in the commercial property markets. The statistics on the direct property market featured in this report often have lags for the most recent period reported and are subject to revision.

Further, due to the relatively small number of transactions that occur in the commercial property market, it is not possible to measure with confidence smaller geographical areas. Indeed, even some cities cannot be measured with great accuracy simply due to the small number of transactions in the market place.

Where there has been significant doubt on the results, we have decided to not include the statistics.

The deficiencies in the data are no fault of the data providers themselves. Simply, it is the nature of industry and the Valuer General delays in final reporting as well as the small number of transactions that occur in the commercial property markets that make compiling reliable statistics a difficult process.

Subsequently this report has focused on a macro view with regard to geographical coverage to ensure that as much data as possible is included to draw up the statistics.

Nevertheless, in the tradition of Adviser Edge, this is an independent report that aims to inform the reader of the current state of the property market, both commercial and residential, as well as its likely movements over the next two years including an update on the Australian LPT market.



Economic Summary

Key Economic Assumptions Behind Forecasts				
Macroeconomic Indicators	Calendar Year Averages			
	2005	2006	2007 (f)	2008 (f prelim)
World GDP (real)	4.9	4.8	4.0	3.8
Australia GDP (real)	2.8	2.8	2.8	2.5
US GDP (real)	3.2	3.3	2.1	2.5
Australia				
Retail Trade (nominal)	3.2	5.8	7.0	5.3
Unemployment Rate (%)	5.1	4.8	4.7	4.9
10-Year CGS Bond Yield (%)	5.3	5.6	5.9	5.5
Index-Linked CGS Bond Yield (%)	2.6	2.3	2.5	2.6
Employment Growth	3.1	2.2	1.7	1.3
Australian Cash Rate	5.5	5.8	6.3	5.8
Non-Residential Building Approvals	21.1	2.8	2.5	5.0
Non-Residential Construction	17.4	12.8	1.1	2.0
Housing Finance	11.3	2.6	5.0	10.0
Commodity Prices (RBA)	33.6	10.7	-7.0	3.0
CPI				
Australia – Headline	2.7	3.3	2.5	2.9
World	3.9	3.9	3.6	3.4

Source: Adviser Edge, van Eyk Research, ABS Cat 6202, 8731, RBA

GDP

December Quarter 2006 GDP data was stronger than expected at 1.0%, bringing the full calendar year growth rate to 2.8%. The positive result was due to a robust consumer spending environment during the quarter, which was surprising given the three interest rate rises of 2006. The rate rises of last year may yet cause consumers to struggle with higher debt servicing payments. That said, steady income gains and possible tax cuts this year will more than likely provide support as it did in 2006. On the production front, business investment is showing signs of peaking after a very strong 2006. Productivity growth has slowed significantly to 1.7% year on year, and the drought is likely to take 0.5% off GDP in 2007.

Based on the above, our forecast is for domestic GDP to remain steady at 2.8% for 2007.

Retail Sales

After a downward trend (in the rate of growth) recorded for much of 2006, retail sales had a bumper January period, rising by 0.9% with an annual rate of 7.2%. This is still below the high

results of 13–14% p.a. recorded earlier in the current decade. Nevertheless, the annual rate of growth is above the CPI.

Retail sales have been stronger in the resources states. Western Australia retail sales grew at 12.6% for the 12 months to January. Going forward, our forecast is for nominal retail sales to slow further to an annual rate of 7% for 2007.

CPI

The December quarter CPI 2006 data recorded a fall in the headline rate of minus 0.1% with an annual rate of 3.3%. The RBA preferred trimmed mean measure of core CPI rose by 0.5% for the December quarter (down from 0.9% for the September Quarter) and remained steady at 2.9% on an annual basis. The largest contributors to the decline in the headline rate were petrol and fruit and vegetables.

Based on the above, our forecast is for the headline rate to fall to 2.5% for 2007.

Building Approvals

Total dwelling unit approvals leapt by 10.6% (seasonally adjusted) for the month of February 2007. The annual rate of change is 10.0%. Victoria and Queensland lead the charge with approvals rising by 29% and 9% respectively. WA and NSW recorded declines for the month.

Housing Finance

The number of dwelling commitments rose slightly during the month of January by 0.3%. The modest rise was driven by increases in NSW and Victoria offset by significant falls in WA. The annual rate is now trending up by 6.1% p.a. Our forecast is for housing finance to continue to grow at a modest rate of between 6%–7% p.a. driven by a recovery in the NSW housing market.

Employment Growth and Wages

Employment growth was steady for the month of March 2007, taking the annualised growth rate to 2.7%. Unemployment of 4.5% is at a 30 year low with many reports from various industries struggling to find labour. Our forecast is for employment growth to slow to 1.7% for 2007.

Given the tight employment market, one would expect a break out in wages. To date the official results from the ABS have been relatively moderate albeit at the upper end of the range. Wages growth rose by 1.1% for the three months to November 2006.





Position

Asset class	Property View									
	Coverage									
	Overall	Sydney	Melbourne	Brisbane	Perth	Adelaide	Canberra	Darwin	Hobart	
Office	Overweight	Overweight	Neutral	Neutral	Neutral	Neutral	Overweight	Neutral	Underweight	Underweight
Industrial	Neutral	Underweight	Underweight	Underweight	Underweight	Overweight	Overweight	Neutral	Neutral	Neutral
Retail	Neutral	Neutral	Underweight	Neutral	Underweight	Overweight	Overweight	Overweight	Neutral	Neutral
Tourism & Leisure (Hotels)	Overweight	Overweight	Overweight	Overweight	Neutral	Overweight	Underweight	Overweight	Overweight	Neutral
All commercial	Overweight	Overweight	Neutral	Neutral	Underweight	Neutral	Overweight	Neutral	Underweight	Underweight
Residential	Neutral	Overweight	Neutral	Neutral	Underweight	Neutral	Overweight	Underweight	Underweight	Neutral

Key:

Underweight – Expected total returns to be under 10%

Neutral – Expected returns to be between 10%–15%

Overweight – Expected returns to be over 15%

Summary Points

1st Quarter 2007 Points to Another Strong Year for Direct Commercial Property

Direct commercial property returns for the 1st quarter have been estimated at 4.8%, which is a solid start to the year after the 18% returns recorded during 2006.

Yields Have Compressed

Yields for direct commercial property across Australia have fallen during the quarter average from 7.6% recorded in 2006 to 7.1% for the 1st quarter of 2007. Office has recorded the largest compression, falling by 70 basis points from 7.9% to 7.2%.

Office Markets on the East Coast Likely to Outperform for the Rest of 2007

The Sydney office market is likely to outperform for the duration of 2007 based on current falling vacancy rates, a rise in face rents above the CPI and a catch up in yield compression compared to other cities.

Industrial Yields Tightening

Yields in industrial continue to compress, however, there is a question mark over rents. Estimates are that there will be an increase in excess of 25% in available floor space this year, due entirely to new construction.

LPT Yields Higher than Direct Property

In all sectors, unstapled LPT yields are now offering a higher yield than direct property, with the average gap being over 100 basis points.

LPT Market Outlook is Neutral

There are mixed valuation indicators coming out of the LPT market. Overall we propose a cautious, selective approach with a focus on unstapled office trusts.

Sydney Residential in Recovery

After three years of falling house prices, there are now some strong signals that the Sydney housing market is in a cyclical upswing. Meanwhile, Perth is likely to record house price declines this year.



Introduction

Australia's office market is in the middle of a recovery phase driven by strong white collar employment growth, and an overall strong economy riding on the back of a commodities boom.

Not surprisingly, the cities of Brisbane and Perth have driven the recovery with vacancy rates in the sub 2% territory and face rents recording double digit increases.

Going forward, we believe the Sydney office market will accelerate in its recovery and offers the best opportunities out of all sector classes for 2007 with expectations that those LPTs exposed to this market to outperform. Indeed, there is already evidence of continued compression with some 1st quarter sales transacted on a yield of 6%.

Industrial property also had a year of rising property values; however, rental demand was mixed for the major cities. While Brisbane and Melbourne recorded strong rental growth, Sydney was flat and is likely to remain that way for 2007.

Oversupply of new industrial floor space is a looming concern for all three cities and a considerable concern for Perth. There is some evidence that much of the new construction coming on board in 2007 has been done on low pre-commitments.

Direct retail property has been regarded as being the steady property performer over the past three years. Retail property capital values Australia wide rose by an estimated 11.8% for 2006, driven by strong increases in values in Western Australia. However the east coast of Australia has only managed to increase between 3%–4%. So far for 2007, rents have remained flat though the recovery in retail sales is likely to provide support.

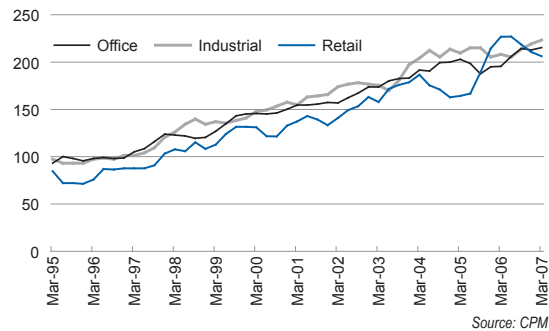
The Tourism and Leisure property market has long been an underperformer due to a very unlucky streak of world events that have deterred domestic and international travel. However, international and domestic visitor demand has been increasing in 2006 and occupancy rates have risen. This might be a sector worth considering going forward.

With the exception of Perth and Darwin, residential property has recorded flat to negative returns since the interest rate rises of 2003. However, there are now some very strong signals that on the east coast a recovery is occurring, particularly for the inner Sydney housing market. In Sydney's west, distressed sales are now the order of the day, with any additional interest rate rise likely to accelerate credit defaults.

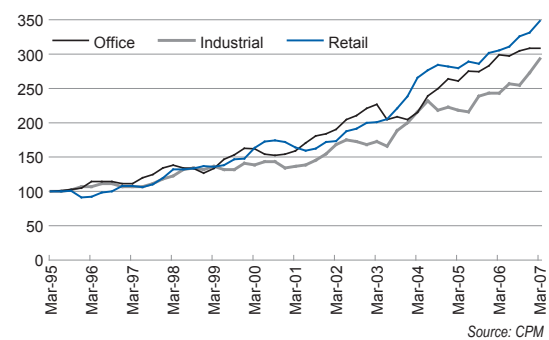
Overall, if one has invested in commercial property, whether it has been invested in office, industrial, retail or tourism and leisure, it has been difficult to lose money in Australian during 2006. Indeed, as per the chart illustrates, over the past 10

years capital values have increased at a very similar rate, with retail slightly outperforming office and Industrial.

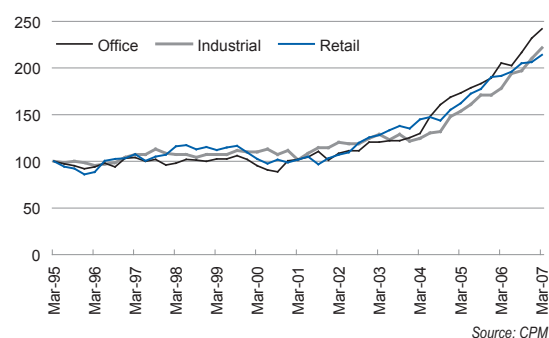
NSW Capital Values



VIC Capital Value



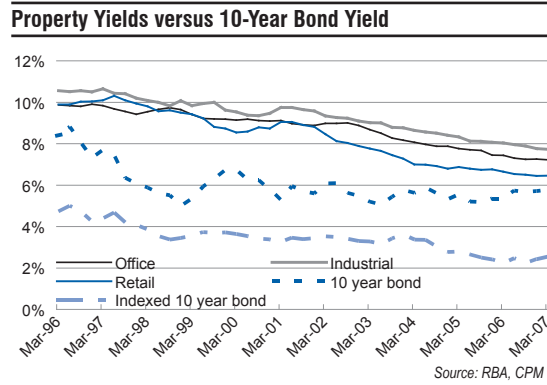
QLD Capital Values



That said, there are questions on whether the commercial property market is now too expensive. Clearly yields have tightened for some time now. To a lesser extent, so has the 10-year bond yield, one of the better measurements in determining market fair value.



Introduction



However, when one looks at the real bond rate adjusted for the CPI the gap between commercial property yields and the adjusted risk free rate has remained at a constant.

There are now some concerns the LPT market is now overvalued and that we are set for a year of lower returns. Our analysis concurs with this argument with regard to the S&P ASX 300 Property Trust Index itself.

However, we have found opportunities using a selective approach to the LPT sector.



Residential

Residential Summary						
	March Quarter Estimate	Quarter Change	1 Year Change	CAGR*	Forecast 2007	Forecast 2008
Houses						
Sydney	\$522,000	-0.2%	1.0%	8.9%	10.5%	9.0%
Melbourne	\$368,000	2.8%	3.6%	8.3%	7.0%	9.5%
Brisbane	\$354,000	2.3%	5.9%	8.1%	6.5%	6.0%
Adelaide	\$335,000	3.7%	8.3%	8.3%	5.0%	6.0%
Perth	\$498,000	0.6%	20.5%	10.8%	-4.0%	2.0%
Canberra	\$442,000	5.5%	5.5%	8.6%	12.0%	6.5%
Hobart	\$244,000	3.4%	1.2%	N/A	5.5%	7.0%
Darwin	\$410,000	2.0%	31.9%	N/A	-6.0%	0.0%
National Average	\$396,625	2.6%	6.6%	8.8%	4.6%	5.8%
Units						
Sydney	\$350,000	-0.3%	-2.7%	6.9%	8.0%	4.2%
Melbourne	\$280,000	0.0%	-0.7%	7.2%	9.6%	4.5%
Brisbane	\$264,000	-0.4%	4.2%	6.3%	9.0%	0.7%
Adelaide	\$215,000	1.4%	6.5%	7.3%	11.9%	6.3%
Perth	\$325,000	-0.6%	26.2%	11.7%	7.0%	-0.6%
Canberra	\$316,000	1.6%	5.8%	6.7%	9.7%	9.2%
Hobart	\$209,000	1.0%	2.0%	N/A	7.3%	0.7%
Darwin	\$273,000	-2.4%	9.1%	N/A		
National Average	\$279,000	0.4%	5.9%	7.7%	10.4%	3.6%

	March Quarter Estimate	Quarter Change	1 Year Change	Gross Yield	Forecast 2007	Forecast 2008
House Rents						
Sydney	\$275	1.9%	6.2%	2.7%	8.0%	6.5%
Melbourne	\$245	2.1%	5.2%	3.5%	7.0%	8.0%
Brisbane	\$305	1.7%	7.8%	4.5%	3.5%	4.5%
Adelaide	\$250	2.0%	6.9%	3.9%	7.3%	4.5%
Perth	\$275	1.9%	15.7%	2.9%	3.0%	6.0%
Canberra	\$335	1.5%	6.5%	3.9%	2.0%	3.0%
Hobart	\$260	0.0%	3.2%	5.5%		
Darwin	\$320	1.6%	6.1%	4.1%	3.5%	4.5%
National Average	\$283	1.6%	7.2%	3.9%	4.9%	5.3%
Unit Rents						
Sydney	\$305	1.7%	4.0%	4.5%	6.5%	6.8%
Melbourne	\$245	2.1%	9.1%	4.6%	6.9%	7.0%
Brisbane	\$285	1.8%	12.0%	5.6%	7.0%	7.3%
Adelaide	\$195	2.6%	9.2%	4.7%	8.4%	8.3%
Perth	\$250	0.0%	20.0%	4.0%	7.5%	7.7%
Canberra	\$310	3.3%	5.5%	5.1%	7.8%	7.5%
Hobart	\$200	0.0%	4.2%	5.0%		
Darwin	\$245	2.1%	9.1%	4.7%	9.2%	9.5%
National Average	\$254	1.7%	9.1%	4.8%	7.6%	7.7%

* Compounded annual growth rate of median property prices (1993–2007)

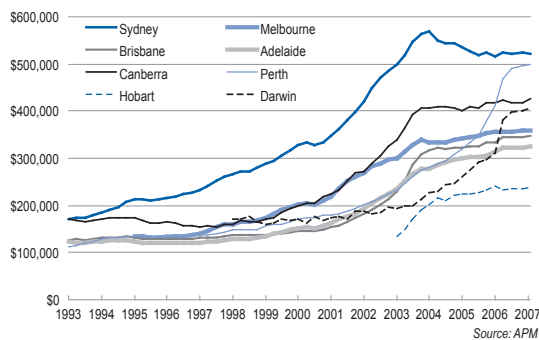
Source: SQM Research, APM, REIA



Residential

There are increasing signs that after a three-year downturn there is a housing recovery underway on the east coast of Australia. Auction clearance rates in Sydney, Brisbane, Canberra and Melbourne are higher than this time last year and indeed at their highest levels since the downturn commenced in late 2003.

House Prices



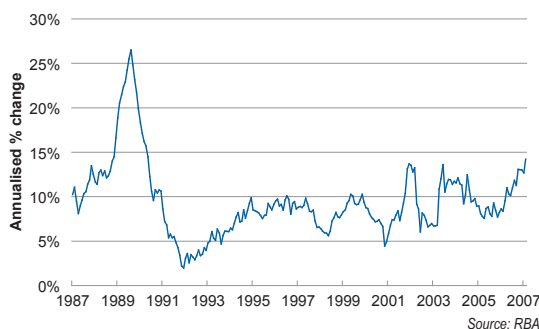
Given the three rate rises of 2006, one would have expected a fairly miserable year for residential property, however, this increasingly does not appear to be the case. Why is the market holding up so well given the lift in rates? Is it rising rents? Improving affordability? A natural “7-year” cyclical upswing or is it media hype becoming a self fulfilling prophecy?

It appears as though it might be a combination of these reasons, however, there is another possible reason which has not been widely reported on – the recent rapid growth of domestic money supply (M3).

It is interesting to note that the growth of money supply over the past 12 months is at its strongest rate since the last recession. Australian money supply (M3) grew at an annualised rate of 14.2% for the month of February 2007, the highest level recorded since May 1990.

Central banks have tended to no longer follow M3 as a good predictor of inflation. However, what has never been disproved is the strong relationship between M3 and asset prices.

Money Supply



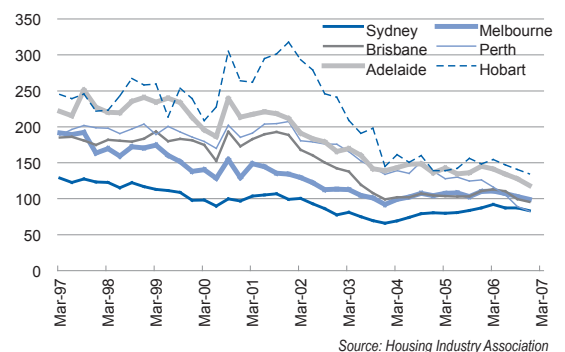
In the past, an acceleration in the money supply growth rate has been highly correlated with bubbles in house prices and other assets. The last time M3 was in double figures was during the housing price boom of 2001–2003, while it soared to a peak of 26% during the last dizzy days of the commercial and housing property boom in 1989.

It should be noted the current housing upturn is not occurring across all Australia. Indeed, while the east coast maybe entering into recovery territory, the west coast and the Northern Territory have entered into a downturn. Housing finance for Western Australia has fallen by over 12% since its peak in June 2006, while the Northern Territory has fallen by 23% over the same period.

This correction in housing demand within the commodity states might just be temporary, especially if commodity prices return to their upward trajectory. Nevertheless, it is at least warning that house prices are overvalued in Perth and Darwin, and are highly susceptible to a significant correction if there was a downturn in the global economy.

Affordability at Record Lows and Going Lower

Affordability



Certainly if housing affordability is anything to go by, the Housing Industry Association’s affordability index has now put the city of Perth as the least affordable city, even surpassing Sydney, which has been improving until recently.

In any case, most cities have been recording long term deteriorations in affordability to levels not seen since the last recession where cash rates were at 18%. Surely this an indication that most housing in Australia is overvalued? Maybe, however the reality is that just like shares, the price of property is never too high to go higher, nor never too low to go even lower. The property markets historically have moved on momentum rather than the fundamentals. And given our call of a housing recovery, affordability is set to deteriorate much further depending on which city you are in.



Sydney

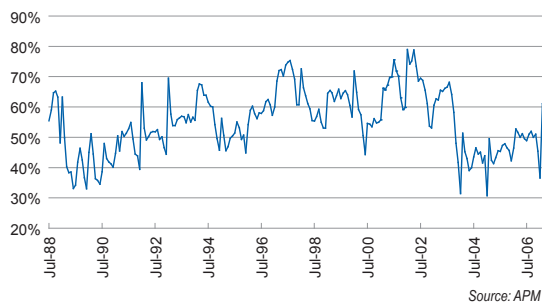
Sydney's housing downturn is now coming to an end with leading indicators suggesting an upturn in prices and activity is occurring, particularly in the inner suburban areas and the beach side suburbs.

Our forecast for 2007 is that Sydney's median house price will rise by approximately 10.5% compared to median house prices in 2006.

Sydney's median house price as reported by Australian Property Monitors (APM) rose during the December quarter by 1.2%. The 12-month change is still flat with a marginal increase of 0.5%. However, it is the leading indicators which are telling the story.

Sydney auction clearance rates have now been steadily rising to hold above 60% week by week. This time in 2006, they were struggling to hold 50%.

Auction Clearance Rates



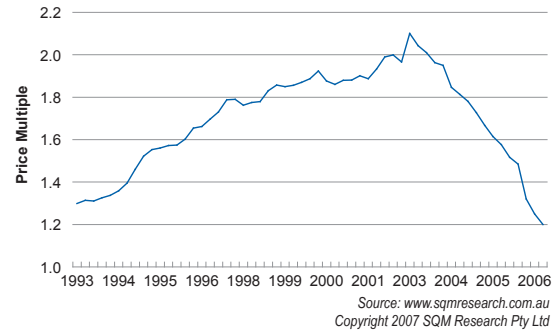
Why are we recording and anticipating price rises for Sydney in 2007? A number of factors are now at play, including improving affordability, improving interstate migration, comparative price levels with other cities and rising rents.

Improving Affordability

Sydney housing affordability has been improving now for the past two years. Little wonder given the 10% price correction of 2004–2006.

Indeed when we compare Sydney to other capital cities in terms of affordability, and in particular median price levels; there has been a significant change in recent times. The chart below records the price multiple between Sydney and the average of all capital cities across Australia (ex Sydney).

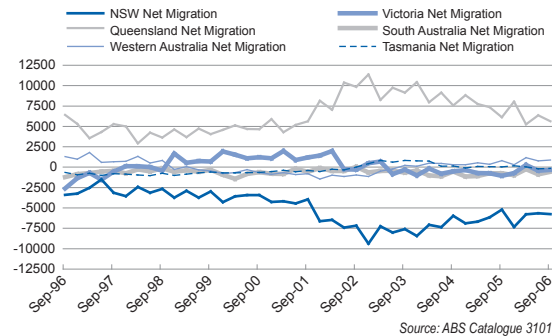
Sydney Price Gap



As we can see, back in 2003, Sydney house prices were at a multiple of 2.1 times the average house price of all other capital cities. Now the figure is just 1.2 times – the lowest it has been since 1993.

Interstate Migration Improving for NSW

Net Interstate Migration



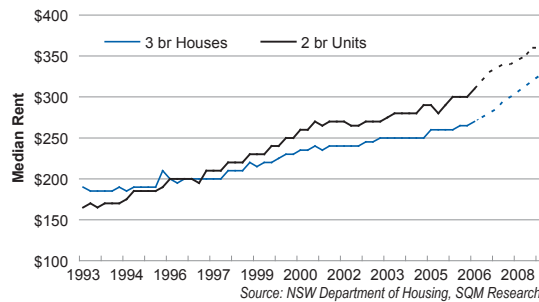
One other factor at play is the improving net interstate migration, albeit it is still very much in the negative for NSW. As affordability has deteriorated in Queensland, it has become less attractive for homebuyers to move north. The attractions of a cheap house when you come to Queensland, particularly southeast Queensland, have gone.

This has encouraged many first home buyers to stay in NSW and Victoria, thereby increasing demand for property in these states.



Rents on the Rise

Sydney Rents



Official numbers from the NSW department of housing put the Sydney rental increases at 6.9% for the 12 months to December. A far cry from the expected 20% rental increase expected by the Real Estate Institute of NSW, but nevertheless, it is very clear rents are rising faster than any time since 2000.

The inner suburban regional rents are rising very quickly (at approximately 9%–12% p.a.), while the outer areas still remain flat, particularly in the outer west where home buyers currently have a smorgasbord of “bargains” to choose from.

Blood Bath in Sydney's West

While many are aware of the deep problems in the US housing market, brought upon by loose lending practices, not many are aware of how bad the situation is in Sydney's west. Many agents on the ground are continually reporting a significant rise in repossessed listings and subsequent re-sales that ensure a negative equity event for the defaulted home owner.

According to Australian Property Monitors (APM) western Sydney house prices have fallen by 2% in the six months to February 2007, and are now down by approximately 11% since 2004.

Australian banking sector default rates, as published by Moodys, have been rising and now stand at 1.3% from 0.3% recorded earlier in 2006. There have also been recent concerns of a practice in the domestic non-banking sector to engage in “rolling refinances” that keep default rates lower than what they actually are. This issue was raised by the Consumer Law Centre earlier in March of this year.

There are no official records kept for the default rate of the non-banking sector and so it is difficult to closely monitor their lending practices or the rate of defaults that are actually occurring, nor is the industry closely controlled. APRA has no powers in this area of home loan lending.

Overall, in answering the question, what is occurring in the US is already happening in Australia, albeit at a smaller scale. Importantly, it does have the capacity to spread outwards.

All the ingredients are there – loose credit provided by an unregulated and uncontrolled non-bank financial sector to a demographic that can least afford adverse movement in their monthly mortgage repayments, a rising interest rate environment, and falling house prices, particularly in those areas where past increases in interest rates have been biting hardest.

Given the lack of data, there is also the possibility that the anecdotal reports are overblown. Needless to say, the industry deserves close scrutiny.

Melbourne

Melbourne is now approximately 18 months into its housing recovery. Depending on which index one measures (ABS, APM, RP Data), it is clear that prices have risen modestly by approximately 3–6%. Moreso, the recovery has first occurred in actual sales activity which is up by 35% from 2005 levels.

Our forecast is that Melbourne house prices are likely to continue rising at moderate levels of between 5–8% for the course of 2007 and depending on movements in interest rates, are likely to accelerate toward 10% in 2008.

Brisbane

Brisbane house prices have been recording growth rates in the order of 8% over the past 12 months, which is slightly higher than forecasted. While net interstate migration levels to Queensland have slowed, they are still very much in the positive, and overall population growth is the 2nd fastest of all states running at 1.9% for the 12 months to the September 2006 quarter.

However, with housing affordability at close to par with Sydney, Brisbane is unlikely to record house price growth much more than current levels. There is a strong positive correlation with a lag of approximately nine months between migration growth rates and Brisbane house prices.

Perth

The downturn in the Perth housing market continues. Housing finance fell again in the month of February to be down 12% since June 2006. While the official statistics from APM and ABS have not yet recorded falls (as up to the December 2006 quarter), it is likely the house price data will shortly reflect what



is actually happening on the ground, with reports from agents and developers of price falls in the outskirts of the city.

So why the Downturn?

It is clear that while the economy has been very strong in WA, house prices rose too far too fast. House prices rose by 75% between December 2003 and December 2006. Back in 2003, Perth was the 2nd most affordable city, with only Hobart being more affordable. Now, it is the most unaffordable city in all Australia.

Subsequently, we have seen net migration levels to Perth slow during 2006. The interest rate rises providing the actual trigger behind the downturn.

Going forward, we expect Perth house prices to record flat to negative house price growth. If there were further interest rate rises of 50 basis points or higher, it is likely Perth will record steeper house price falls of between 7%–15% for the 12-month period after the rate rises.

Conversely, a sustained downturn in commodity prices would also trigger further house price falls.

Overall, Perth currently has the highest risk attached to it with regard to residential property investment.

Canberra

Like Melbourne, Canberra has entered into its second year of its house price recovery after the downturn of 2004–05. The difference between Melbourne and Canberra however, is that residential property prices are rising quickly at a brisk 9% over the past 12 months.

The recovery is being driven by a very tight rental market. Canberra rents rose by 7.7% for the 12 months to December 2006. Accordingly, many renters have been forced into homebuyers and this consolidated the recovery.

Going forward, our model suggests the recovery will gather steam in 2007. House prices are forecast to rise by 10%–13% for the calendar year, assuming no more than a 25 basis point rise in interest rates by June.

Hobart

The Hobart housing market has experienced a soft landing after the 70% gains recorded between 2003 and 2005. House prices are now growing at an annualised rate of 6%. Despite these gains, Hobart is still the most affordable capital city in all Australia, though the gap certainly has narrowed over the past three years.

Net interstate migration levels have been in modest positive territory for the course of this decade, which is a huge turnaround from the 1990s where the population was leaving the state for each consecutive quarter between 1996 and 2002. However, there is some concern on migration levels once again with the last two quarters recording negative results.

Hobart of course also has one of the highest unemployment rates of the country at 5.6%, though this has been trending down during this decade as is the case of all states and territories.

Adelaide

Adelaide has also enjoyed a soft landing with annual house price growth slowing to a rate of 6%. Affordability had deteriorated recently (as is the case with all other states and territories), however, Adelaide still has some of the cheapest housing available (2nd only to Hobart) for the country.

Our forecast however, is that Adelaide is likely to only see modest housing price growth in the order of 4%–6% for 2007. Net interstate migration levels have recently been in the negative, and employment growth and wages have been lagging other states.

Darwin

Like the Perth market, Darwin house prices have had a boom since 2003. Darwin house prices have risen by 74% between December 2003 and December 2006 and 18% alone in the last 12 months.

The rises have been driven primarily by the commodities boom and the rail link, which has seen a significant increase in trade via the port. Unemployment is the lowest in all the country with a rate of just 2.5%. However, wages have been in check growing at just 2.35% for the 12 months to November, which is under the inflation rate.

The lack of wages growth has meant affordability has deteriorated to one of the most unaffordable cities in the country, making Darwin susceptible to a housing price correction if there were rises in interest rates or a downturn in the world economy. This is what appears to be happening now with housing finance down by a massive 23%.

Going forward, the growth rate in house prices should significantly slow in 2007 with the probability of recorded price falls, there is a high probability that the forecasted price falls would accelerate if we were to see an interest rate rise this year.



National Office Market

Summary Office Market Indicators – Performance Summary (AUD)							
		Mar-07 (Est)	1 year	3 year	5 year	Forecast 2007	Forecast 2008
Rents (Δ in median psqm)	Greater Sydney	1.13%	7.10%	-1.98%	1.31%	7.0%	9.0%
	Greater Melbourne	2.00%	3.10%	6.18%	4.73%	8.0%	6.0%
	Greater Brisbane	2.70%	28.57%	14.28%	10.70%	12.0%	5.0%
	Adelaide Core		8.57%	4.02%	-0.59%	8.0%	5.0%
	Perth CBD		9.80%	7.59%	8.09%	7.0%	2.0%
	Canberra CBD		6.90%	12.51%	4.32%	7.0%	5.0%
	Hobart CBD		5.00%	10.00%	3.78%	5.0%	4.0%
	National aggregate	1.95%	9.86%	7.51%	4.62%	7.7%	5.1%
Capital value (Δ in avg psqm)	Greater Sydney	1.17%	9.21%	5.28%	6.37%	11.9%	4.2%
	Greater Melbourne	0.00%	8.91%	15.09%	11.54%	9.6%	4.5%
	Greater Brisbane	4.31%	22.57%	23.06%	18.46%	15.2%	0.7%
	Adelaide Core		18.18%	5.53%	9.85%	11.9%	6.3%
	Perth CBD		15.38%	6.45%	6.52%	7.0%	-0.7%
	Canberra CBD		21.43%	11.04%	6.66%	9.7%	9.2%
	Hobart CBD		5.88%	11.74%	12.71%	7.3%	0.7%
	National aggregate	1.83%	14.51%	11.17%	10.30%	10.4%	3.6%
Vacancy rates (Jan-07)	Sydney	7.91%	8.64%	10.02%	9.04%	8.0%	7.5%
	Melbourne	8.00%	7.72%	8.89%	8.00%	7.0%	7.0%
	Brisbane	1.70%	2.00%	4.66%	5.52%	3.5%	4.5%
	Adelaide	6.60%	7.17%	8.93%	9.85%	7.3%	7.5%
	Perth	0.90%	2.19%	9.70%	10.01%	3.0%	7.0%
	Canberra	1.80%	1.96%	3.60%	4.11%	2.0%	3.0%
	Hobart	1.90%	2.46%	4.42%	6.66%	3.5%	4.5%
	National aggregate	4.12%	4.59%	7.18%	7.60%	4.9%	5.9%
Yields	Greater Sydney	7.59%	7.59%	7.51%	7.78%	6.5%	6.8%
	Greater Melbourne	6.86%	7.15%	7.34%	7.75%	6.9%	7.0%
	Greater Brisbane	7.20%	7.19%	8.05%	8.63%	7.0%	7.3%
	Adelaide Core		8.70%	8.65%	8.95%	8.4%	8.3%
	Perth CBD		7.50%	8.17%	8.30%	7.5%	7.7%
	Canberra CBD		8.00%	8.83%	9.10%	7.8%	7.5%
	Hobart CBD		9.40%	9.80%	10.48%	9.2%	9.5%
	National aggregate	7.22%	7.93%	8.34%	8.71%	7.0%	7.2%
Total returns	NSW	8.76%	16.80%	12.79%	14.15%	18.4%	11.0%
	Victoria	6.86%	16.06%	22.43%	19.30%	16.5%	11.5%
	Queensland	11.51%	29.76%	31.11%	27.09%	22.2%	8.0%
	Adelaide Core		26.88%	14.18%	18.80%	20.3%	14.6%
	Perth CBD		22.88%	14.62%	14.82%	14.5%	7.1%
	Canberra CBD		29.43%	19.87%	15.76%	17.5%	16.7%
	Hobart CBD		15.28%	21.54%	23.19%	16.5%	10.2%
	National aggregate	9.04%	22.44%	19.50%	19.01%	18.0%	11.3%

Source: CPM, APC, Adviser Edge



National Office Market

2006 has been a very positive year for Investors who have had an exposure to the national direct office market with vacancies tightening, rents rising and office yields falling.

Total estimated returns for the Office market for 2006 came in at 22.4% nationwide.

The drivers of the out performance in the office market have been a combination of factors including:

- strong employment growth, thereby creating an increase in demand from tenants;
- minimal increases in supply thereby creating solid absorption rates and in turn reducing vacancy rates; and
- strong institutional demand by property trusts and developers creating rises in capital values and a tightening in yields.

The recovery in the office market has been not just a national phenomena, but an international one, which has been as a result of an above long term average rise in world gross domestic product recorded in 2006 and an increase in demand from global REITS for premium commercial property.

Certainly, Australia has taken part in this trend and has been correlated to the performance of global office markets for some time now.

That said, there has been a noticeable difference in performance between the various major capital cities around Australia, with Brisbane, Perth, Adelaide and Canberra recording total returns in excess of 22% while Melbourne and Sydney recording returns at approximately 15%–19%.

No doubt the causations between the varying degrees of performance more than likely relate to the relative performances of each state's economy, and on that front there is a gap in performance between the better performing states of Western Australia versus NSW, which has been recording below average state demand growth rates.

Office Capital Values, Vacancies, Yields and Rents

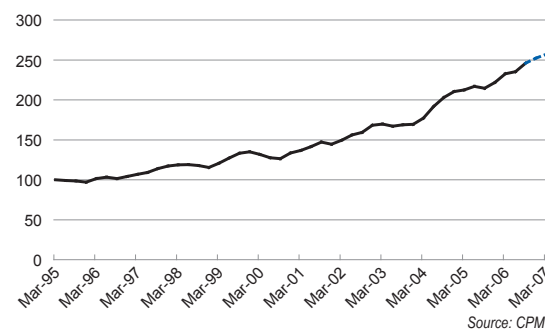
According to Data from Commercial Property Monitors, average capital values across the national Office markets have increased by 14.5% for 2006.

This increase in values is considerably up on 2005 where average CBD capital values rose by 8.0%.

Brisbane recorded the fastest growth rate of over 22.6%, while Hobart recorded a rise in capital values of 5.9%.

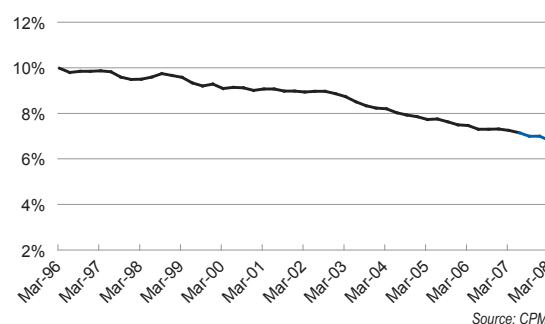
The national 10-year average annual increase in capital values is 8.8% p.a. Clearly 2006 has been an above average year for the office market.

Office Capital Values



With the gain in capital values, yields have compressed over the year. Average national office yields are standing at an estimated 7.2% for the March quarter, which is down from the same period in 2006 where yields were at 7.9%.

Office Yields



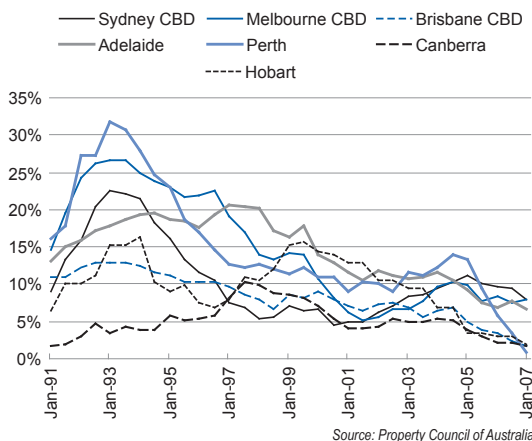
National CBD office vacancy rates fell during 2006, with office vacancies falling to 6.1% for the six months to January 2007. Vacancy rates 12 months earlier were 7.5%.

Office vacancy rates fell in every city in Australia during 2006. Perth recorded the largest fall in vacancy rates, falling from an already tight 5.8% to 0.9%.



National Office Market

Office Vacancy Rates

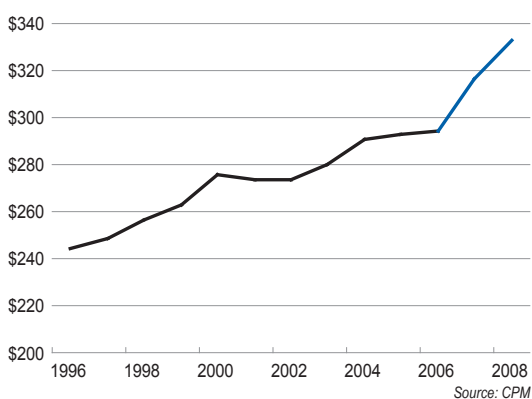


As we can see national office vacancy rates have been falling since the second half of calendar 2004, which reflect higher rates of office absorption (a measure of demand) over that time combined with a stable office supply environment.

Premium office vacancies are tighter still, running at 3.5%, however overall office vacancies across all building classes have decreased.

The tightening in office vacancy rates has in turn put upward pressure on rents across the country.

Office Rents



Nationally, office rents rose by an estimated 9.9% during 2006. Rents rose the fastest in Queensland, rising by 29%, while the worst performer was Hobart where office rents rose by 5.0%.

NSW office face rents rose by 7% during 2006, which was an increase over 2005 where market rents fell by 9%. Rents have risen an estimated 2.3% for the 1st quarter of 2007, indicating that 2007 will be yet another solid year of rental increases.

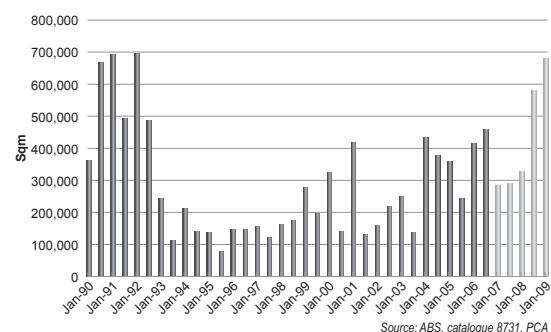
Supply on the Rise

Since 2004, supply levels of new and refurbished offices have risen from their 1990s lows in response to a gradual increase in demand and a wind down from surplus stock created back in the late 1980s recession.

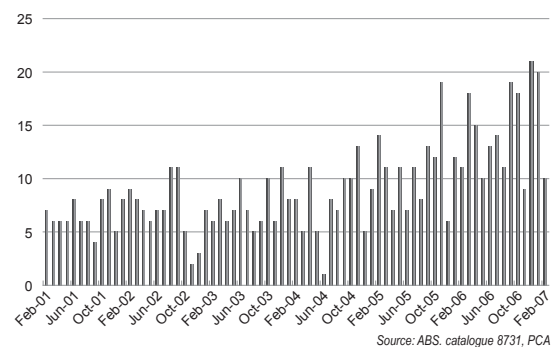
Developers (and banks) have learnt their lessons from those days and have only built based on certainty of pre-commitments. The relatively subdued supply is also due to the impact of weaker rental growth in 2004-05 and high construction costs on project feasibility.

Financial year 2007 national supply levels will be growing at an estimated total of just over 710,000sqm (2006: 743,000sqm), with 30% pre-committed. However, the bulk in growth of supply will be outside the Central Business Districts.

Historical National Supply Levels with Forecasts



Number of Office Approvals (National)



2008-09 will see a resurgence in newly constructed office space, with an expected 1.3 million sqm of space to be completed for 2008 and possibly up to 1.4 million sqm to be completed for 2009 with Sydney, Perth and Brisbane making the largest contributions. Our estimates are based on confirmed commencements and planned commencements supplied by the property council of Australia, as well as office building approvals from the ABS.



National Office Market

As we can see with the supplied chart, office building approvals for the last half of 2006 have been running at an all time high. The average period from approval to completion of buildings is approximately 24 months, which explains our forecast for 2008-09.

To put this in perspective, we could potentially see a record level of office completions, which would even surpass the record 1991 completion levels of 1.1 million sqm.

This will more than likely lift vacancy rates from their current levels and therefore put downward pressure on rents over this period unless demand is far higher than anticipated.

Let us now consider the performance of each city.

Perth

Perth office vacancy rates are now at their tightest level since the boom of the 1980s, running at 0.9%. Until recently, there has been disequilibrium between demand and supply. New demand for office space (net absorption) has been running at over 50,000sqm p.a., while supply has been falling way behind at just over 8,000sqm p.a.

Subsequently, Perth has been one of the strongest rental performers, with rents rising by nearly 9.8% in 2006.

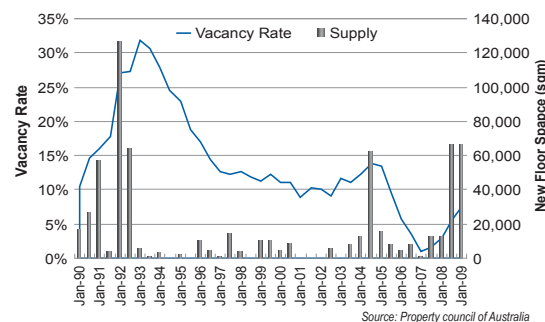
As with the rest of the country, Perth office yields have tightened to approximately 7.5% from 8.5% recorded in 2005.

Meanwhile, the rise in rents and decline in yields have seen capital values increase by approximately 15.4% over the course of 2006.

2007 should see a further rise in rents and a continued 'zero vacancy rate' due to a total lack of new supply. Only 25,000sqm of new or refurbished floor space will be added to the market.

However, questions must be raised for 2008 as a large number of projects are now underway for completion. 133,000sqm is already locked in with potentially even more being added during the same year.

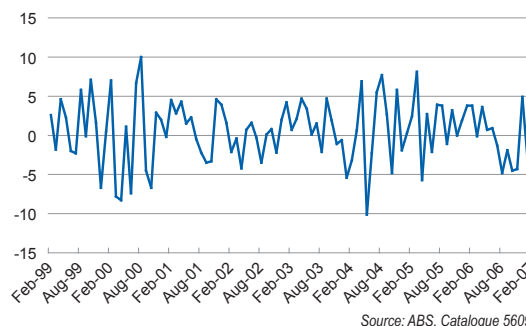
Perth Office Supply, Vacancy Rates including Forecast



At this stage, even assuming an increase in demand from these lofty levels that the market will struggle to absorb new supply.

In addition, there are some recent indications suggesting that the Perth housing market is now slowing, with WA housing finance falling by 11% during the second half of 2006.

Perth Housing Finance



It is certainly quite conceivable that just as a wave of supply hits the Perth market place demand will already be in decline.

Overall, we forecast vacancy rates to stay below 2% in 2007 before increasing again in 2008 as new supply swamps the market.

Rents are likely to rise by 11%–13% this year, but thereafter rental growth should slow back to below 5% p.a. There is also a chance that landlords will lock in tenants at long term attractive rents to ensure that they cannot switch to the new offices once they come on line.

Overall, while we believe that in 2007 the market will outperform, the risks for the Perth office market from 2008 onwards are considerable.

We therefore recommend being neutral towards the Perth office market.



National Office Market

Sydney

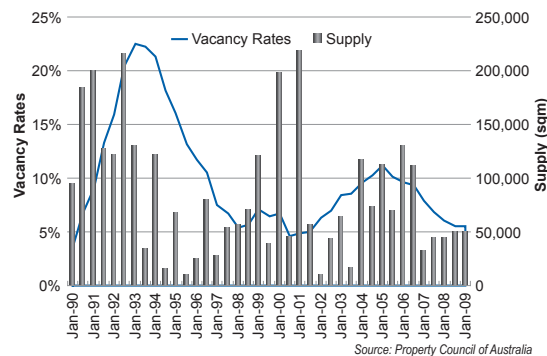
The Sydney office market is now entering its second year of recovery after the downturn of 2003–05. CBD vacancy rates have fallen to 7.9% after reaching a cyclical peak of 11.2% in the second half of 2004.

Rents rose by approximately 7% for greater Sydney during 2006, and are likely to accelerate in 2007. We forecast a 9% rise for this year based on an expected tightening in vacancy rates.

Overall, office yields are compressing at 7.6%. Yields have compressed for premium office space to approximately 6.4%. In 2005, Sydney A-grade office yielded 7.5%. However, it has been the lift in rents which have seen a rise in capital values of approximately 9.2% for 2006. When combined with the yield compression, total direct office returns for Sydney have been running at 16.8% for 2006 before tax.

Total anticipated direct property returns are forecast to be approximately 18% for 2007.

Sydney Office Supply, Vacancy Rates including Forecast



Supply of new Sydney CBD office space (expected to be 90,000sqm) for 2007 will be way below the long term average of 180,000sqm. In 2006, Sydney recorded below the long term average of 145,000sqm added to the market.

At this stage, supply of new/refurbished office space will increase in 2008 to approximately 110,000sqm. However, assuming this is the end result, it will still be below the long term supply average of 180,000sqm.

Assuming demand remains at current levels, vacancy rates should fall further during 2007 to approximately 6.5%.

The key risks to the Sydney office market include a downturn in the domestic and world economy, and an above expected lift in supply in 2008-09. However, there is also a risk on the upside that demand could rise above expectations, and if this

were the case, vacancy rates could tighten more quickly than anticipated.

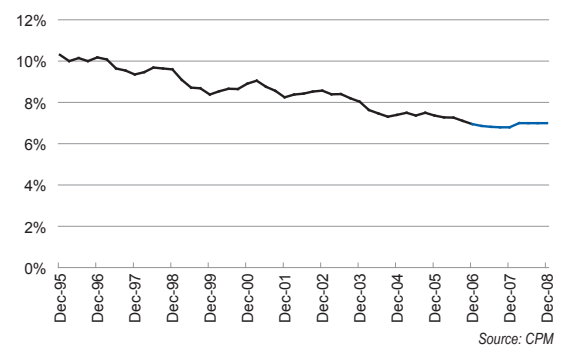
Overall, we recommend an overweight position to direct Sydney office property.

Melbourne

Melbourne has recorded a sharp reduction in rental yields during 2006 and this trend seem to have continued for the March quarter of 2007. Prime CBD office yields are now achieving 6.8%, whereas in 2005, Melbourne office yields were at 7.5%.

The sharp decline in yields may have been as a result of investors' expectations of strong rental growth combined with the search for yield by institutional investors. Melbourne market rents rose by 3% during 2006. So far, there has been an estimated 2% just for the March quarter.

Melbourne Historic Yields Chart



Supply of new stock in 2006 of 215,000sqm was considerably above the long term average of 124,000sqm, which would normally be a concern.

The huge influx of new supply has been demand-generated, with the majority of the supply pre-committed before construction commenced. Nevertheless, it meant that vacancy rates rose slightly in the 2nd half of 2006 from 7.5% to 8.0%.

Going forward, new office supply will increase in 2007, with 115,000sqm of office space planned to be completed. The 2008 indications to date suggest there will be acceleration in supply once again. Rents are likely to rise, albeit a moderate rate, in 2007 by 4%. Yields are expected to tighten slightly to approximately 6.8%.

Our expectations for total returns in Melbourne for 2007 are approximately 14%, and we therefore have a neutral bias to the Melbourne office market.

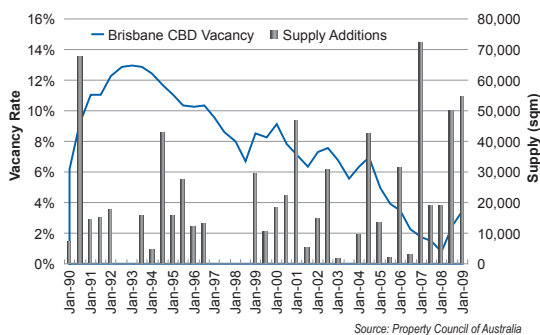


National Office Market

Brisbane

Brisbane available stock for rent has hit an all time low of just 30,000sqm, and that covers all grades. This translates into a vacancy factor of just 1.7% for the CBD – the tightest vacancy rates since records begun. Back in the early 1990s, there was over 200,000sqm available stock for lease on a vacancy rate above 30%. How times have changed.

Brisbane Vacancy Rates and Supply



The strong demand for commercial office space, and limited supply, has meant that capital values have risen by 22.6% in 2006, and rents have risen by 29%.

Given the rise in rents, face yields have tightened to an estimated 7.2% for the first quarter 2007 from 7.6% in 2005. A number of very recent premium grade office transactions have indicated yields of below 7%.

The out performance of the Brisbane office market has been based above average increases in finance sector employment growth and overall population growth for southeast Queensland.

The out performance has continued despite a strong 2006 in terms of supply, where 75,000sqm of office space was added to the market, over double the long term average of 35,000sqm. The big question is, how much supply will be added over the next two years and will demand absorb this too?

Currently, there is 36,000sqm of office space set for completion in 2007, and an estimated 105,000sqm for 2008. While supply for 2007 will be easily absorbed, questions must be asked about 2008. Developers are keeping very tight lipped about the level of pre-commitments they are generating for next year.

Overall, we hold an overweight bias for the Brisbane office market. While there are some concerns about the impact of committed new supply for 2008, at this stage it does appear that the market will be able to absorb the new stock.

Overall National Office Outlook

Our forecasts are as follows:

- office yields will fall slightly to approximately 7.0% from 7.9% in 2006, with a possible rise in yields in 2008 based on a slowing market and an increase in supply;
- rents to grow on average by 7.7% in 2007, driven by rises in Brisbane, Perth, Melbourne and Sydney. Asking rentals will be under pressure in 2008 due to a significant increase in office completions, particularly in Perth;
- capital values to rise on average by 10.3% in 2007; and
- overall forecast total returns to be 18% in 2007, falling to 11% in 2008.

Given the mixed forecast and a forecast slowdown in returns for 2008, we have a neutral view on the national office market.



National Retail Property Market

Summary Retail Market Indicators – Performance Summary (AUD)							
		March 07 Qtr	1 year	3 year	5 year	Forecast 2007	Forecast 2008
Rents	Greater Sydney	0.51%	-11%	13.89%	0.19%	3.0%	3.0%
	Greater Melbourne	-0.38%	-12.38%	0.66%	-0.33%	2.0%	3.0%
	Greater Brisbane	1.09%	23%	54.42%	29.04%	5.0%	4.0%
	Average	0.41%	0.16%	22.99%	9.63%	3.3%	3.3%
Capital value (Δ psqm building area)	Greater Sydney	-2.14%	-1.78%	7.05%	10.64%	3.1%	3.1%
	Greater Melbourne	5.19%	9.97%	11.71%	14.12%	2.0%	2.9%
	Greater Brisbane	3.73%	8.40%	15.35%	15.08%	5.1%	4.2%
	Average	2.26%	5.53%	11.37%	13.28%	3.4%	3.4%
Yields	Greater Sydney	6.53%	6.79%	6.78%	7.20%	6.6%	6.7%
	Greater Melbourne	5.55%	5.55%	5.63%	5.89%	5.3%	5.5%
	Greater Brisbane	7.28%	7.27%	7.84%	8.45%	6.8%	6.7%
	Average	6.45%	6.53%	6.75%	7.18%	6.2%	6.3%
Total returns	Greater Sydney	4.39%	5.01%	13.83%	17.84%	9.7%	9.7%
	Greater Melbourne	10.74%	15.52%	17.34%	20.02%	7.3%	8.4%
	Greater Brisbane	11.00%	15.66%	23.19%	23.53%	11.9%	10.9%
	Average	8.71%	12.06%	18.12%	20.46%	9.6%	9.7%

Source: CPM, Adviser Edge

Direct retail property has been regarded as the steady property performer over a number of years now. However, total returns for 2006 were slower than the long term average; coming in at 12.1%. This compares to total returns for 2005 of 26.6%. According to CPM research, retail property capital values Australia wide have risen by an estimated 5.5% for 2006.

Movements in the retail rents have been more difficult to accurately measure. The CPM data suggests a fall in the face market rents occurred during 2006 for Victoria and NSW, while increases occurred in Queensland. The net result however, was flat rents. However, this anecdotal evidence has been based on a small number of rental transactions only.

Another measure to consider is changes in distributions of the unstapled listed property trusts, with a 100% exposure to the Australian retail market. Distributions were unchanged in 2006.

Average Retail Property Trust Distributions

Retail LPT Distribution Change	Average
2004	6.11%
2005	10.86%
2006	0.01%

Source: Bloomberg

Another, more generic, measure of rental growth is retail sales as it is common practice within the retail industry for leases to include a percentage rent provision, and any significant increase in retail turnover would more than likely attract new retail operators into the market place and vice versa.

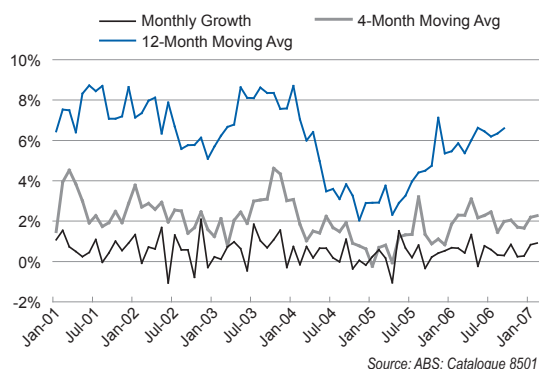
As from July 2005, there has been evidence of a slowdown in the growth rates of retail sales turnover. The slowdown in overall retail sales over 2006 was influenced by the slowdown in discretionary spending, which normally has a direct impact upon retailers' bottom line. The slow down has more than likely been as a result of rises in interest rates, the housing market slowdown creating a reverse in the "wealth affect" and rises in petrol prices during 2006.



National Retail Property Market

However, as covered at the beginning of this report, retail sales have been accelerating since the December quarter. Retail sales were up by an annualised rate of 10.8% for the month of February 2007. If the recent upward trend continues, it is probable that there will be a rise in retail rents of above 5% for 2007.

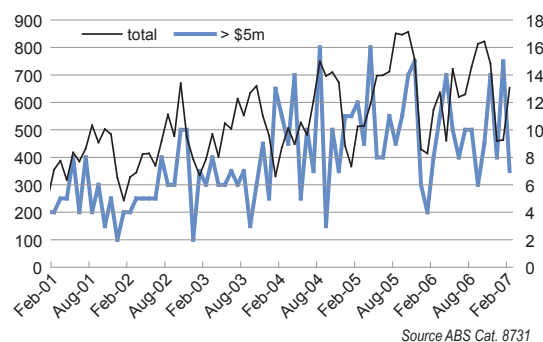
Retail Sales



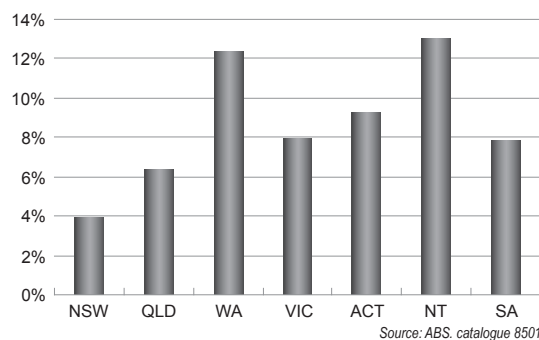
election year, may offset another 25 basis point rate rise. Given our forecasts for retail turnover, our forecast for face market rental growth is a national average of 5.3%.

While recent rental growth results and already compressed yields suggest a slowdown in total returns, it is unlikely that there will be a correction in values. That said, neither can we expect a pick up as supply of new stock is increasing once again.

Retail Building Approvals



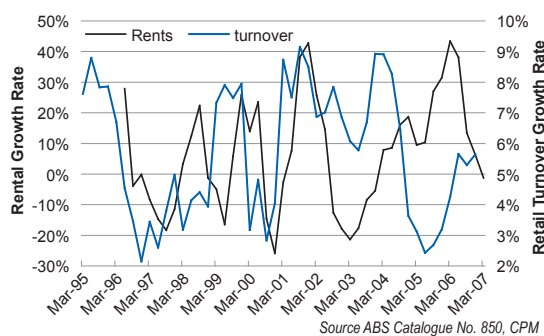
Retail Turnover by State (12-Month Change)



There has been an acceleration in growth of smaller developments, while new development construction opportunities involving major regional and city centre type retail properties have been somewhat limited by local planning and development controls and local community/stakeholder consultation.

In overcoming the larger scale restrictions, developers have instead been involved in shopping mall refurbishments, particularly with regard to sub-regional shopping centres. The same property classes have also been in high demand by property trusts (with a property development arm) who are buying and expanding rundown sub-regional shopping centres into state of the art shopping mall monoliths as part of a major yield play. This action in the market place says much about those trusts that have access to a development arm.

Rents versus Retail Sales



Recommendation

We anticipate that retail will record modest returns in 2007 and 2008. While there are signals that retail sales are on the march, we believe yields will not compress much further than where they are now and that while rental growth will increase from 2006 levels, such growth will be limited due to an increase in supply of smaller retail outlets. That said, there will be opportunities for some of those larger retail trusts to capitalise their development arms and bring in above average returns for their investors.

Our forecast for retail turnover in 2007 is for a moderate growth rate in retail sales of 7.0%. Rises in nominal wages and rises in money supply plus the possibility of tax cuts in an

Overall, we have a neutral to bias for this sector.



Industrial Property

Summary Industrial Market Indicators – Performance Summary (AUD)							
		Mar-07	1 year	3 year	5 year	Forecast 2007	Forecast 2008
Rents	Greater Sydney	2.2%	1.60%	-1.33%	1.78%	1.0%	0.0%
	Greater Melbourne	4.0%	12.17%	1.59%	5.30%	0.0%	0.0%
	Greater Brisbane	-1.1%	12.23%	6.28%	5.40%	2.0%	0.0%
	Adelaide Core		6.25%	9.43%	7.33%	4.0%	2.0%
	Perth CBD		6.67%	10.16%	7.91%	2.0%	0.0%
	Canberra CBD		-5.56%	2.19%	7.98%	7.0%	3.0%
	Hobart CBD		-9.09%	-3.03%	-1.64%	0.0%	1.0%
	National aggregate	1.7%	3.5%	3.6%	4.9%	2.3%	0.9%
Capital value (Δ)	Greater Sydney	1.88%	6.70%	3.61%	5.89%	2.3%	0.0%
	Greater Melbourne	7.50%	12.17%	10.70%	12.04%	0.0%	-1.3%
	Greater Brisbane	5.52%	22.53%	19.88%	13.35%	3.3%	-1.3%
	Adelaide Core		5.88%	8.81%	11.69%	9.0%	4.5%
	Perth CBD		22.22%	16.51%	9.52%	5.7%	-2.4%
	Canberra CBD		0.00%	11.67%	13.67%	13.5%	3.0%
	Hobart CBD		-3.45%	2.61%	7.56%	1.1%	2.1%
	National aggregate	4.96%	9.44%	10.54%	10.53%	5.0%	0.7%
Yields	Greater Sydney	7.7%	7.90%	8.20%	8.55%	7.7%	7.7%
	Greater Melbourne	7.9%	8.01%	8.09%	8.36%	7.9%	8.0%
	Greater Brisbane	7.6%	7.82%	8.30%	8.72%	7.8%	7.9%
	Adelaide Core		8.80%	8.93%	9.46%	8.4%	8.2%
	Perth CBD		8.50%	8.83%	8.92%	8.2%	8.4%
	Canberra CBD		8.80%	8.93%	9.50%	8.3%	8.3%
	Hobart CBD		9.50%	9.67%	10.10%	9.4%	9.3%
	National aggregate	7.73%	8.48%	8.71%	9.09%	8.2%	8.3%
Total returns	Greater Sydney	9.58%	14.60%	11.81%	14.44%	10.0%	7.7%
	Greater Melbourne	15.37%	20.17%	18.79%	20.40%	7.9%	6.8%
	Greater Brisbane	13.14%	30.35%	28.18%	22.07%	11.1%	6.6%
	Adelaide Core		14.68%	17.74%	21.15%	17.4%	12.7%
	Perth CBD		30.72%	25.34%	18.44%	13.9%	6.0%
	Canberra CBD		8.80%	20.60%	23.17%	21.8%	11.3%
	Hobart CBD		6.05%	12.27%	17.66%	10.5%	11.4%
	National aggregate	12.70%	17.91%	19.25%	19.62%	13.2%	8.9%

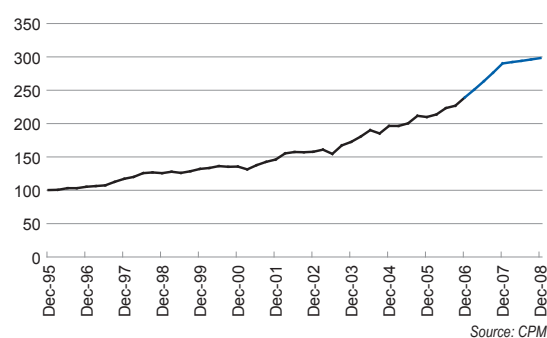
Source: CPM, PCA



Industrial Property

2006 has been another solid year for industrial property investors who have enjoyed the combination of falling industrial yields and rising rents. With the exception of NSW, most major states and cities have recorded solid rises in rents, with some recording double digit increases such as Victoria and Queensland. Yields on average have compressed by about 30 basis points during the year to 8.5%.

Industrial Capital Values Chart

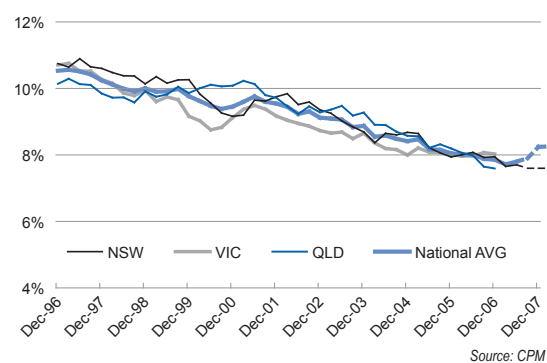


The drivers of the performance in the Industrial market have been a combination of factors including:

- overall yield compression driven by property trusts and other institutional investors (as experienced in other commercial);
- an ongoing nationwide feed of major infrastructure projects; and
- a slowdown in NSW economic growth has seen Sydney rents stall.

Yields

Industrial Yields



Direct industrial property yields have fallen by approximately 20 basis points (BP) in Sydney and Brisbane, and just 10 BP in Melbourne. Meanwhile, Perth has fallen by over 50 BP. Average

yields in the east coast cities are currently very similar, with Melbourne at 7.9% while Brisbane and Sydney running at 7.6% and 7.7% respectively.

Looking back over the past 10 years, in March 1997, Queensland yields were tighter at 10% versus Victoria and NSW where yields were at 10.7% and 10.6% respectively.

Infrastructure

In outlying areas, comparatively cheap land serviced by new infrastructure has become a real alternative to prime land close to the cities. The case in point is the Westlink M7 in Sydney has driven stronger demand (and supply). It is a similar story in other states such as the Eastlink in Melbourne that is under construction.

Overall, major infrastructure projects and an expansion of townships are generally a positive for industrial property, provided that supply does not become exuberant in the process or does not strip tenants from more traditional areas, such as is the case in Sydney.

Rents

Median industrial rents in Melbourne had a positive year, with face rents rising on average by 11.4%. However, a number of regions in Melbourne are faring worse than this result, the south and north of the city have been stagnant.

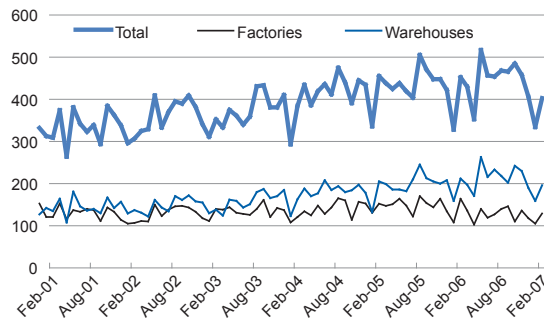
Sydney face rents have been stagnant with face rents rising on average by 2% for the year. There is solid evidence that there is a strong upswing in supply occurring in Sydney's west in 2007. Despite this, there is an early indication that face rents have risen in the 1st quarter by approximately 2%. That said, it appears likely that Sydney industrial rents will be stagnant again this year, unless tenant demand surprises on the upside.

It is a similar story with other cities, with supply forecast to rapidly expand in 2007 for Brisbane, while Melbourne will record a 9% increase in supply at a time where it is widely reported by developers that Melbourne has an oversupply of stock on the market place.



Industrial Property

Industrial Building Approvals



Source: ABS Cat. 8731

Forecast Industrial Floor Space

	2006	2007
Melbourne	1,100,000	1,200,000
Sydney	976,000	1,177,000
Brisbane	788,000	1,150,000
Perth	190,000	300,000
SC	90,000	110,000
GC	116,000	260,000
Total	3,260,000	4,197,000
% Change		28.74%

Source: CB Richard Ellis

Meanwhile, Brisbane industrial rents have outperformed in 2006 rising by 12%, a solid result after the considerable run up of 15% in 2005. However, it is unlikely double digit increases will occur in 2007 due to a surge in supply forecasted for this year.

Outlook

2007 will see a stalling of the industrial property market in Brisbane, Melbourne and Sydney. With market rents forecast to be static in all three cities and yields also forecast to be flat, there is no real likelihood of any significant capital value increases, and therefore we believe total returns for industrial property will fall in the next two years from 13% for 2007 to 8% in 2008.

On the other hand, the cities of Adelaide and Canberra are set to have a very positive year on the back of further compression in yields and rising rents. These two cities still have very attractive rental yields, each at 8.8% respectively.

Our overall position is net neutral to underweight for national industrial property, with a recommended underweight position for Sydney, Melbourne, Brisbane and Perth, as each of these cities is forecast to offer returns under 10% by 2008.



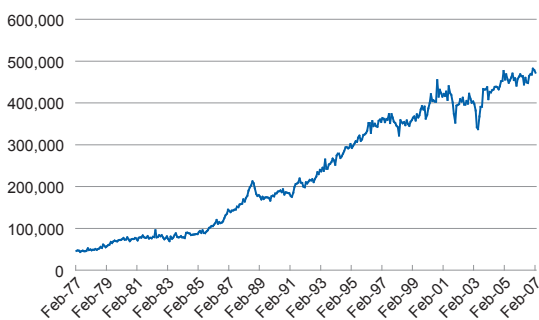
Hotels (Tourism & Leisure)

As hotel property transactions are so few and far between, statistics in this area of the property market are negligible. This of course makes independent measurement of the market very difficult for analysts.

Many of the views on this sector have been based on anecdotal evidence only, with the exception of the statistics from the respected research house Dransfield & Co plus the Australian Bureau of Statistics.

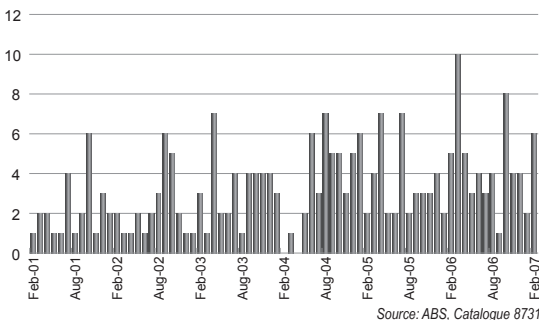
The hotel property sector has endured a long period of underperformance over the past six years. The causation behind this is obvious with a drop off in international visitors due to the events of 2001, and subsequent events including the Bali bombings and the ongoing bird flu fears have all had an impact upon demand for hotel accommodation.

Overseas Visitors



With lowered expectations for demand, supply of new hotels has been benign over the same period. Refurbishment, rather than new stock has been the preferred investment strategy by developers.

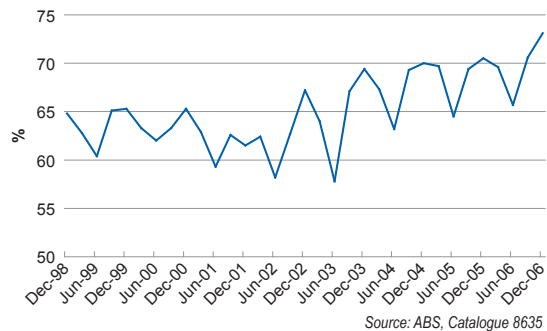
Accommodation Building Approvals



Hotel Takings



Hotel Occupancy Rates



However, in 2006, the hotel market has experienced a recovery, and one that has gone largely unreported by the financial media. Occupancy rates have risen, which has allowed for an increase in nightly room rates rising above the CPI at 5.5% and subsequent yields tightening, although remaining relatively stable.



Hotels (Tourism & Leisure)

Hotel Rack-Rate and Occupancy Yields								
	Supply		Demand		Average Room Rate		Room Yield	
	Sept 06 Qtr	HF06 F'cast For 2006	Sept 06 Qtr	HF06 F'cast for 2006	Sept 06 Qtr	HF06 F'cast for 2006	Sept 06 Qtr	HF06 F'cast for 2006
Market	% Change	% Change	% Change	% Change	% Change	% Change	% Change	% Chg
Adelaide	-5.20%	-1.50%	4.70%	4.00%	6.70%	7.00%	17.80%	12.90%
Brisbane	3.30%	7.80%	7.00%	6.50%	6.70%	6.70%	10.60%	5.40%
Cairns	-1.70%	5.30%	-5.60%	3.50%	9.10%	5.50%	4.80%	3.70%
Canberra	1.60%	1.40%	7.40%	3.50%	6.90%	4.00%	13.10%	6.10%
Darwin	0.30%	1.90%	1.40%	4.00%	10.90%	2.00%	12.00%	4.10%
Gold Coast	-1.20%	3.60%	-10.00%	3.00%	7.40%	5.00%	8.60%	4.40%
Hobart	-5.50%	50.00%	-6.20%	1.00%	2.60%	5.00%	1.90%	5.50%
Melbourne	4.20%	6.00%	7.20%	6.00%	5.90%	6.00%	8.90%	6.00%
Perth	-2.20%	5.70%	80.00%	7.50%	12.10%	8.00%	15.60%	9.80%
Sydney	0.30%	5.10%	3.30%	4.00%	4.10%	4.00%	7.20%	2.90%
Total Market	0.20%	4.40%	2.70%	4.50%	6.70%	5.20%	9.40%	5.3

Source: DA Dransfield & Co 2006

The recovery in occupancy and room rack rates has not gone unnoticed by some of the bigger players. The Grand Hotel group, Australia's only listed trust with a 100% exposure to hotels has recently been taken over by the consortium of Tuan Sing and Morgan Stanley.

The reason for the institutional interest? In short, its yields. Yields on hotels and resorts have been transacting on an average of 10%, which is very high compared to other property asset classes. That said, this is one class where the hotel rents are tied very closely to the operator's performance and the growth rate of the tourism and leisure sector.

This means income is far more volatile than other forms of property, and investors need to take this into account when considering investing in a hotel trust.

Needless to say, the current trend suggests hotel rents will continue to rise at an annual rate beyond the CPI for at least the next two years, or until such time as supply of 4-5 star hotel accommodation increases.

Overall we recommend a cautious overweight position in this sector.



LPT Market

Listed LTS Indexed and Non-Indexed

Stapled	ASX code	Name	Exposure	Market Cap.	Yield			2006 Performance			2007		1 st Qtr 2007
					2003	2004	2005	Capital Growth	Yield	Return	Forward Yield	Beta	
S	ABP	Abacus Property Group	Diversified	\$1,109,362,000	10.75%	9.79%	8.66%	26.46%	7.76%	36.28%	6.46%	0.56	7.47%
	AEU	AUST. EDUCATION TRUST	Child Care	\$219,927,500	N/A	9.84%	8.65%	20.13%	8.94%	30.87%	8.57%	0.50	1.04%
	AEZ	APN European Retail Trust	Retail	\$664,392,400	N/A	N/A	N/A	9.68%	9.42%	20.01%	8.18%	N/A	7.53%
S	AHO	AUST HOTEL ORD U	Hotels	\$17,285,250	N/A	N/A	5.36%	6.52%	4.34%	11.15%		0.46	
S	ALZ	Australand Property Group	Diversified	\$1,975,019,000	14.97%	12.31%	12.19%	-2.21%	10.78%	8.34%	7.94%	0.58	10.98%
S	APZ	Aspen Group Limited (stapled)	Diversified	\$597,163,200	10.52%	9.17%	8.40%	48.80%	7.37%	59.77%	5.77%	0.42	30.77%
S	BEC	BECTON STAPLED	Retirement	\$603,700,300	N/A	N/A	N/A	25.85%	11.05%	39.75%	4.67%	0.27	37.17%
	BJT	Babcock & Brown Japan Property Trust	Diversified	\$951,675,700	N/A	N/A	N/A	22.22%	6.18%	29.78%	6.31%	0.90	-5.22%
	BWP	BWP TRUST ORD UN	Retail	\$663,158,200	7.20%	7.17%	6.56%	12.21%	6.49%	19.49%	6.18%	0.66	2.48%
	CDP	CARINDALE UNIT	Retail	\$339,500,000	7.27%	7.18%	6.64%	41.67%	5.68%	49.72%		0.43	
	CDI	Challenger Diversified Property	Diversified	\$573,117,100	N/A	N/A	N/A	N/A	N/A	N/A	6.36%	N/A	2.53%
S	CER	CENTRORET STAPLE	Retail	\$1,572,842,000	N/A	N/A	N/A	33.77%	7.40%	43.61%	7.80%	N/A	-15.54%
	CFX	CFS RETAIL UNIT	Retail	\$4,762,786,000	7.40%	7.07%	6.05%	16.50%	5.71%	23.15%	5.23%	0.61	-2.17%
S	CHC	CHARTER HALL GROUP	Diversified	\$1,027,903,000	N/A	N/A	N/A	N/A	N/A	N/A	3.83%	N/A	23.97%
S	CNP	CENTRO. STAPLED	Retail	\$7,428,569,000	9.21%	7.63%	5.86%	58.73%	4.98%	66.64%	4.91%	0.68	-1.67%
	CNR	Coonawarra Australia Property Trust	Agriculture	\$10,500,000	N/A	11.38%	12.70%	-9.52%	8.02%	-2.27%		0.08	
	CPA	COMMOFFICE ORD U	Office	\$2,239,738,000	9.10%	8.21%	7.84%	15.29%	7.36%	23.78%	7.16%	0.74	-2.40%
	CWT	Challenger Wine Trust	Agriculture	\$128,610,890	10.01%	9.76%	10.12%	4.05%	12.22%	16.76%		0.27	
S	DRT	DB RREEF TRUST	Diversified	\$5,080,023,000	N/A	N/A	8.02%	28.62%	7.20%	37.88%	6.61%	0.71	0.79%
	EPF	ESPLANADE ORD UN	Diversified	\$21,907,510	N/A	11.53%	2.24%	4.17%	4.04%	8.38%		0.68	
	GHG	GRANDHOTEL ORD/U	Hotels	\$341,480,100	N/A	6.39%	5.25%	55.11%	5.40%	63.49%	4.55%	0.67	-5.25%

LPT Market

Stapled	ASX code	Name	Exposure	Market Cap.	Yield				2006 Performance			2007		1 st Qtr 2007 Total Return
					2003	2004	2005	Capital Growth	Yield	Return	Forward Yield	Beta		
S	GPT	GPT STAPLED	Diversified	\$10,228,070,000	7.48%	6.85%	6.46%	38.61%	6.33%	47.38%	6.12%	0.68	-9.14%	
	GSA	GALILEO UNIT	Retail	\$1,212,804,000	N/A	6.65%	8.88%	8.85%	8.89%	18.53%	8.88%	0.73	-2.68%	
	IEF	ING RE Entertainment Fund	Tourism and Leisure	\$146,230,400	N/A	N/A	8.33%	0.00%	8.51%	8.51%	8.28%	0.38	3.79%	
	IHF	ING Real Estate Health Care Fund	Health Care	\$56,109,380	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A		
	IIF	ING INDUST UNITS	Industrial	\$2,573,843,000	8.42%	7.70%	7.18%	8.22%	7.12%	15.93%	7.16%	0.68	10.55%	
	ILF	ING RE Community Living Fund	Retirement	\$426,590,600	N/A	N/A	8.85%	9.09%	9.08%	19.00%	7.89%	0.49	3.26%	
S	IOF	ING OFFICE STAPL	Office	\$1,924,100,000	9.27%	8.37%	8.11%	15.91%	7.26%	24.32%	6.86%	0.61	7.23%	
S	IPG	INVESTPROP STAPL	Diversified	\$3,768,073,000	8.29%	10.89%	8.60%	26.13%	7.24%	35.27%	6.65%	0.71	4.95%	
	MCW	MACQ CNTRY UNIT	Retail	\$2,652,799,000	8.23%	7.82%	7.79%	7.65%	8.26%	16.55%	7.58%	0.66	0.28%	
	MDT	Macquarie DDR trust	Retail	\$1,110,706,000	N/A	9.91%	8.81%	16.74%	8.70%	26.90%	8.21%	0.78		
S	MGQ	MACQUARIE GOODMAN	Industrial	\$11,826,860,000	N/A	N/A	N/A	60.68%	4.96%	68.64%	8.07%	0.83	1.54%	
S	MGR	MIRVAC GRP STAPL	Diversified	\$5,350,575,000	8.49%	8.82%	9.78%	35.68%	7.92%	46.42%	6.23%	0.75	-7.60%	
	MIX	Mirvac Industrial Trust	Industrial	\$395,529,100	N/A	N/A	N/A	7.85%	9.54%	18.14%	9.86%	0.44	-3.08%	
S	MLE	MACQ LEISR STAPL	Tourism & Leisure	\$665,625,900	9.61%	7.82%	6.62%	24.17%	5.79%	31.36%	6.13%	0.77	-2.85%	
	MME	MTM ENTER UNIT	Tourism & Leisure	\$6,400,000	2.56%	N/A	N/A	-68.89%	366.85%	45.24%	N/A	N/A		
	MOF	MACQ OFFCE UNIT	Office	\$3,017,156,000	9.42%	8.85%	8.77%	16.67%	8.22%	26.25%	7.54%	0.65	4.93%	
	MPF	Multiplex Acumen Property Fund	Diversified	\$243,696,400	N/A	9.83%	9.94%	11.68%	9.29%	22.06%	N/A	0.44		
	MPR	MACQ PROL UNITS	Industrial	\$1,109,157,000	8.36%	10.24%	9.77%	7.73%	9.48%	17.94%	8.64%	0.63	0.54%	
	MPS	Macarthur Cook Property Securities Fund	Diversified	\$154,548,900	N/A	N/A	7.03%	10.10%	10.56%	21.73%	N/A	0.43		
S	MPY	MFS LIVING STAPL	Tourism & Leisure	\$176,533,600	N/A	N/A	N/A	21.38%	N/A	11.15%	N/A	N/A	4.00%	



LPT Market



Stapled	ASX code	Name	Exposure	Market Cap.	Yield			2006 Performance			2007		1 st Qtr 2007 Total Return
					2003	2004	2005	Capital Growth	Yield	Return	Forward Yield	Beta	
	MRA	Mariner American Property Income Trust	Diversified	\$188,306,200	N/A	N/A	N/A	-3.34%	10.36%	6.68%	N/A	N/A	
S	MXG	MULTIPLEX GROUP	Diversified	\$3,734,814,000	N/A	7.99%	7.87%	27.88%	7.62%	37.62%	4.89%	11.45%	
	RAB	Rabinov	Diversified	\$79,536,950	N/A	4.73%	9.16%	40.00%	3.90%	45.46%	N/A	N/A	
	RAT	Rubicon America Trust	Diversified	\$418,226,500	N/A	N/A	11.54%	5.50%	11.70%	17.85%	11.17%	15.96%	
S	REU	RUBICON EUROPE TRUST	Office	\$505,691,400	N/A	N/A	N/A	7.92%	9.47%	18.15%	9.70%	N/A	
	RJT	Rubicon Japanese Trust	Diversified	\$411,700,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
	RNY	Reckson New York	Office	\$302,926,000	N/A	N/A	N/A	14.29%	5.94%	21.07%	7.72%	-5.44%	
	RRT	RECORD REL ORD U	Office	\$338,510,500	N/A	11.47%	N/A	10.03%	11.52%	22.71%	12.16%	-3.50%	
S	SGP	STOCKLAND. STAPL	Diversified	\$11,357,200,000	7.26%	7.75%	7.41%	28.77%	6.08%	36.61%	5.50%	4.02%	
	SPR	S8 Property Trust	Tourism and Leisure	\$62,389,770	N/A	N/A	N/A	-5.00%	9.78%	4.29%	N/A	N/A	
S	THG	THAKRAL ORD/UNT	Diversified	\$568,029,100	9.60%	8.72%	12.07%	13.25%	8.11%	22.43%	7.23%	1.20%	
	TLT	TOUR&LEIS ORD UN	Tourism & Leisure	N/A	11.71%	10.19%	10.83%	18.87%	9.05%	29.62%	N/A	N/A	
	TSO	Tishman Speyer Office Fund	Office	\$864,409,700	N/A	N/A	8.78%	21.46%	7.40%	30.45%	6.70%	0.68	
	VOF	Valad opportunity Fund No. 11	Diversified	\$31,655,450	N/A	N/A	6.77%	10.82%	9.83%	21.72%	9.04%	3.05%	
S	VPG	VALAD PROPERTY GROUP	Diversified	\$1,693,661,000	9.72%	9.10%	7.67%	18.28%	7.22%	26.83%	8.76%	2.59%	
S	WDC	WESTFIELDG STAPL	Retail	\$36,962,000,000	N/A	N/A	6.40%	16.61%	6.49%	24.18%	5.23%	-11.25%	
	WOTCA	WBC OFFICE IRS	Office	\$249,822,200	N/A	6.75%	6.53%	7.34%	7.02%	14.87%	5.14%	27.99%	
	WST	Westralia Property Trust	Diversified	\$31,344,680	N/A	9.19%	2.31%	9.89%	N/A	N/A	0.51	N/A	

Source: Bloomberg

* Market Cap taken as at 04/04/07

LPTs Offering More Value than Index Suggests

According to the S&P ASX 300 Property Trust Index, total listed property returns were 34.1% for 2006 while forward yields tightened to 5.8%.

But is this a true indicator of returns for pure listed property trusts or was this return simply driven by the big four stapled securities of Westfield, Macquarie Goodman, General Property Trust and Stocklands?

It has been no secret that the S&P ASX 300 Property Trust Index had a stellar 2006 with total returns exceeding 34%. The performance of the index has surprised many analysts and fund managers who anticipated underperformance of the index, and has also left many in the investment community questioning whether the LPT market is now overvalued and ripe for a correction.

So far for 2007, there has indeed been a correction with the S&P ASX 300 property trust index returning a result of -2.9% verses the ASX 200 index which returned 5.4% for the quarter.

A number of reasons have been given for the underperformance, one of them being that a yield offering of 5.5% (recorded at the start of the year) was way too tight for property, and that on its own suggested the market was overvalued. The yield on the ASX 300 property index is now 6.2% – still considered as too tight by a number of analysts.

But is 6.2% truly what one can expect to receive in terms of a distribution return if you invested in an average listed property trust today? In short, the answer is one can receive a much higher forward distribution yield simply by not following the index and avoiding stapled securities, particularly the big four stocks. Even assume if one can receive a higher yield than 6.2%, is the sector as a whole expensive?

Broader Market Outperformed Index in 1st Quarter

As stated, total returns for the ASX 300 property index were -2.9% for 1st quarter 2007, this is in contrast to the 34.1% returns recorded in 2006. However, what many do not know is that the broader LPT market actually performed better than the index last year and has marginally done the same so far this year. Total returns for the broader LPT trust market were 35.5% for 2006 while in the 1st quarter were -2.3%.

Currently, the S&P ASX 300 Property Trust Index is made up of 32 stocks, of which 15 are stapled securities (those securities

which derive their income from trust rental income as well as earnings from the parent company, which usually are derived from development revenues and trust fees).

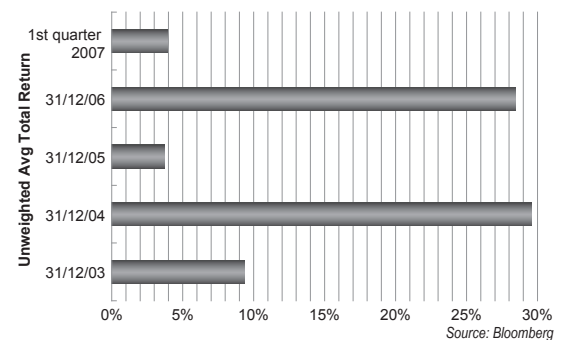
The index is also weighted based on market capitalisation with the big four making up 57.9% of the index. Westfield on its own represents 29.5% of movements in the index. It so happens that each of the four is also stapled securities, and each of the four currently has a forward yield of below 6.0%.

Our calculation of 35.5% takes into account the returns for all 60 listed property trusts weighted based on market cap, similar to how the S&P ASX 300 Property Trust Index is weighted. By taking this calculation, individual stocks such as General Property Trust and Westfield have a similar but smaller influence on the outcome compared to the ASX 300 Property index.

As an exercise, on an unweighted basis (each stock has an equal weighting), the total returns on the market for 2006 were 27.6%. And importantly the total returns for the 1st quarter are a positive 3.8%. And if we go one step further and just look at the unstapled, pure listed property trusts, the returns for this sector were 22.3% in 2006, while 1st quarter 2007 returns are 3.1%. Clearly, the developers have had a good 2006 however, the 1st quarter of this year has been less than positive while those pure, unstapled LPTs have recorded positive returns, which have gone largely unnoticed because of the movements in the index itself.

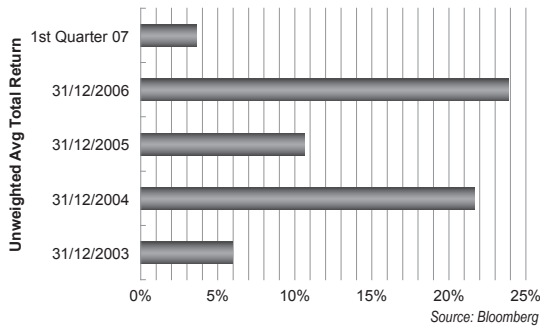
What is also interesting to note is the break up of each LPT into their respective asset classes (industrial, office, retail, etc). Retail property provided the highest returns in 2006, with an average return of 30.9%, while industrial was the worst performer coming in with a positive 17.3% return for the year. So far for this year, it has been the diversified LPTs and office LPTs which have outperformed. The break up between the various asset classes is provided below:

Diversified LPT Average Returns

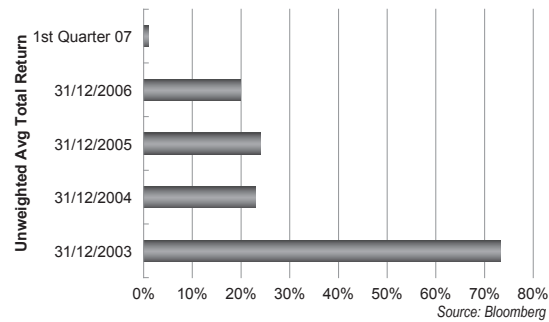


LPT Market

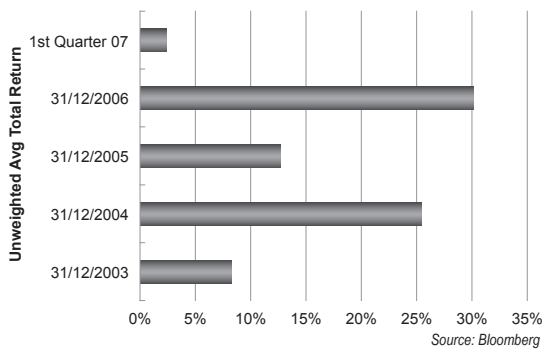
Office LPT Average Returns



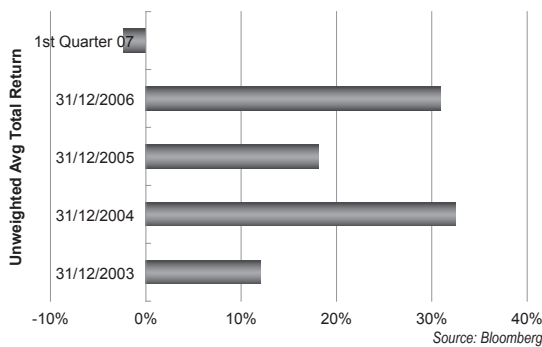
Tourism & Leisure LPT Average Returns



Industrial LPT Average Returns



Retail LPT Average Returns



LPT Yields Healthier than Index Suggests

As in the case of total returns, LPT yields significantly differ from the headline forward rate of 6.2% (S&P ASX 300 Property Trust). The broader LPT market (weighted) stands at a forward yield of 6.3%.

Comparison of Yields and Returns

	S&P ASX 300 Property Trust Index (32 stocks)	Unstapled LPTs S&P ASX 300 Property Trust Index (17 stocks)	Broader LPT Market (60 stocks)	Unstapled LPTs in Broader Market (38 stocks)
2007 Forecast Yield				
Unweighted	7.09%	7.59%	7.25%	7.76%
Weighted	6.17%	7.03%	6.34%	7.12%
March Quarter 2007 Returns				
Unweighted	2.09%	3.30%	3.76%	3.32%
Weighted	-2.91%	1.21%	-2.34%	1.58%
2006 Total Returns				
Unweighted	31.20%	24.84%	27.63%	22.31%
Weighted	34.05%	22.65%	35.52%	22.60%

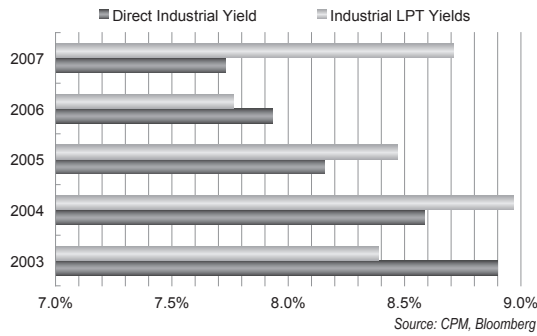
However, when we consider an unweighted view of the market, the yields are much higher, currently standing at 7.3% with the unstapled LPTs offering a yield of 7.8%.

When we break down the yields into their respective property classes, it is the industrial trusts which are offering the highest yield right now at an average of 8.7%, while retail is offering the tightest yield with an average of 6.0%. Office is offering 8.3%.

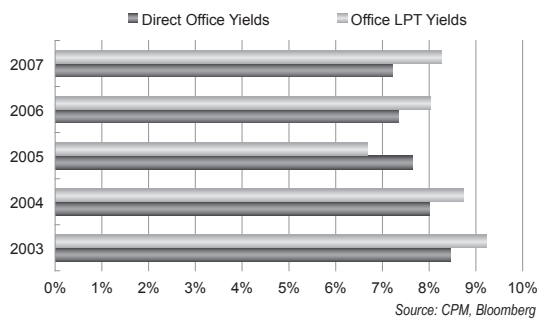


LPT Market

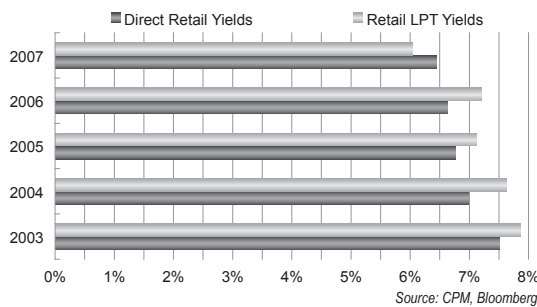
Direct Industrial Yields to LPT Yields



Direct Office Yields to Office LPT Yields



Direct Retail Yields to Retail LPT Yields



In any case, as per the charts provided, yields on the S&P ASX 300 Property Trust Index have followed closely with the yield on the direct property market. The correlation is surprisingly strong when one considers that direct property measurements are based on the broader market while listed property trusts tend to be invested in prime real estate only.

Also a key point to note is that currently in certain sections of the LPT market, prospective yields in industrial and office are higher than what can be purchased with direct property.

So, is the Market Expensive and about to Underperform?

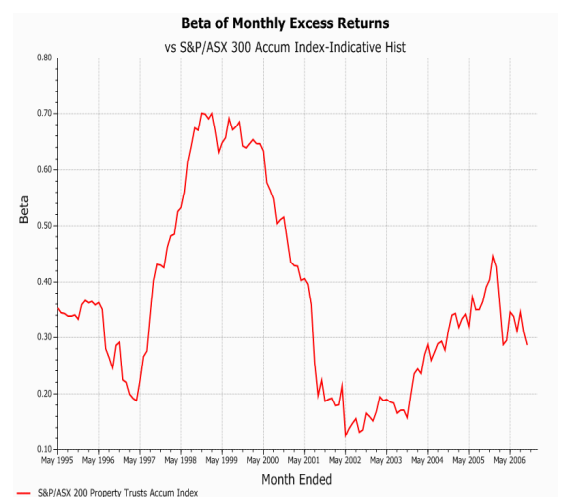
On a range of measurements, we are recording mixed measures as to whether the LPT sector is expensive and/or less attractive to other asset classes. Overall, the S&P ASX 300 Property Trust Index does appear to be overvalued from a property perspective. However, when the index is dissected, there is value to be found. The problem is that on a short term basis, there is good evidence to show that unstapled securities will move in the same direction as the ASX 300 property trust index and so the recent correction has impacted the unstapled trusts as well. However, over the longer term the correlation is insignificant.

Correlation and Betas

Are movements in the LPT market tied to the direct property market, or more so the equities market? Given in recent years the move to a stapled securities environment, there may be some evidence available to suggest movements in the LPT market have been following the broader market by virtue of the likes of Westfield, Stocklands and GPT making up a significant proportion of the index.

While volatility has increased, correlations and betas to the ASX 200 are actually low (notwithstanding the recent correction) thereby making the sector an attractive asset class, simply on diversification grounds.

Beta of Monthly Excess Returns

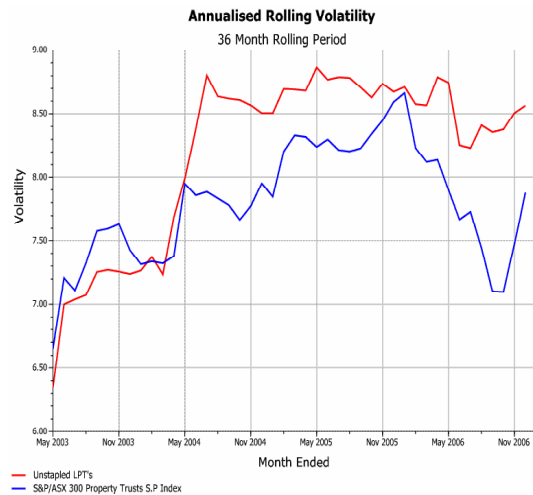


The correlation is lower still when we split up the LPT market into its respective exposures as illustrated previously. On a longer term basis, direct office yields are closely correlated to LPT office yields (as one would hope and expect). It is also a similar trend with industrial and retail property. LPT PE multiples at fair value compared to broader market.



Volatility of Returns have Increased

Volatility of Returns

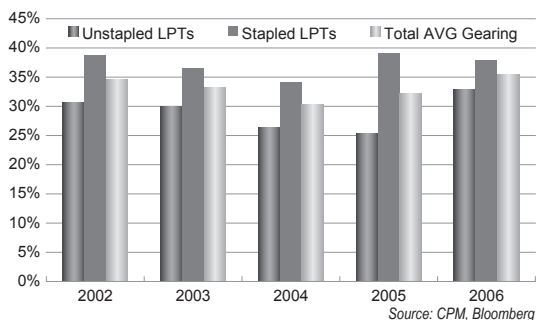


Volatility of LPT returns over the past three years have been on the rise. Given that many investors enter into property for the benefit of reduced volatility, no doubt increased volatility is not good news. This increased volatility has been attributed by some as a result of the stapling of some of the country's largest property trusts. However, as the chart reveals, volatility has been just as high with those trusts that are not stapled.

One other possible causation is that the level of gearing behind the trusts has increased over recent times. Gearing affects the integrity of property investments. Regardless of the security of income from the property and the economic environment, debt changes the risk profile of the vehicle.

In theory, investors should be demanding a higher discount rate of return, however, as we know, yields have been compressing.

Gearing Levels



Source: CPM, Bloomberg

Sharpe Ratios on a High

The Sharpe ratio for the ASX 300 Property Index has corrected of late from a reading of 2.3 recorded late in 2006 to 1.7 recorded for the month of March. The same ratio for the unstapled securities is lower but still a respectable result at 0.75.

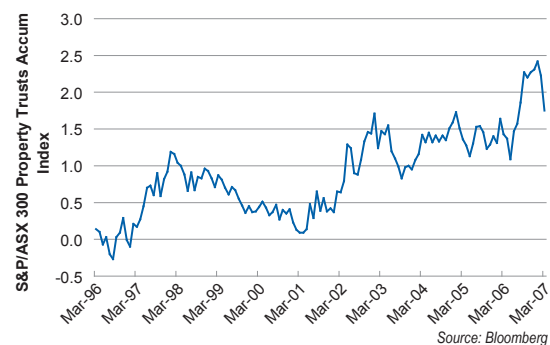
The Sharpe ratio is a measure of risk-adjusted performance of an investment asset. The Sharpe ratio is used to characterise how well the return of an asset compensates the investor for the risk taken. When comparing two assets, each with the expected return against the same benchmark with return, the asset with the higher Sharpe ratio gives more return for the same risk.

For managed funds, it is considered by the market that a Sharpe ratio of over 1.0 is good. Outstanding funds normally achieve over 2.0. In the case of LPTs, the Sharpe ratio's good performance has been as a result of above average total returns compared to the normal standard deviation of those returns. However, given the exceptional broader market returns in the equities markets over recent times, ratios of over 4.0 have been achieved, albeit in emerging markets.

As mentioned above, the unstapled security markets tend to have more stable, albeit lower returns, while the volatility of those returns have been equal to the volatility of the stapled securities. Hence, why the Sharpe ratio is under 1.0 compared to their stapled counter parts which have recorded some outstanding returns via construction and development revenues.

The underlying revelation is that it has been those property trusts that have a development arm which have been the outperformers. Profits have been higher due to stronger property development revenues.

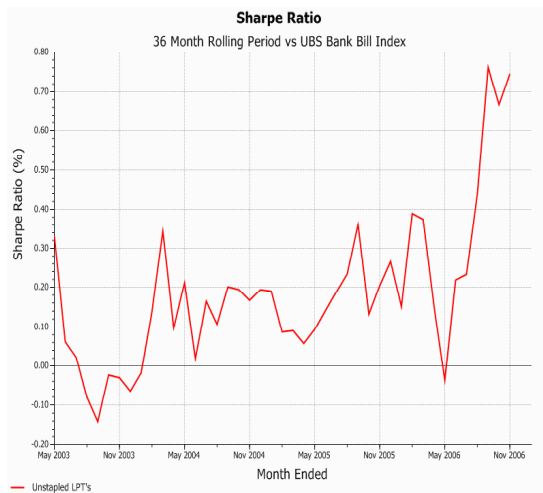
Sharpe Ratios for ASX 300 Property Index versus UBS Bank Bill Index



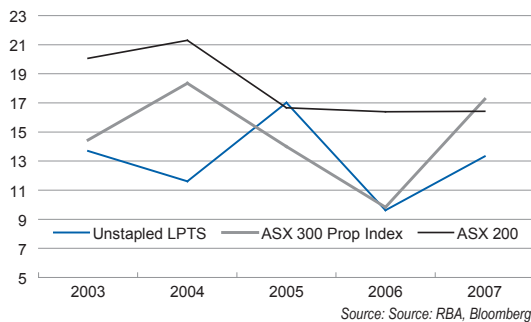
Source: Bloomberg



LPT Market



LPT Multiples versus ASX 200 Multiples



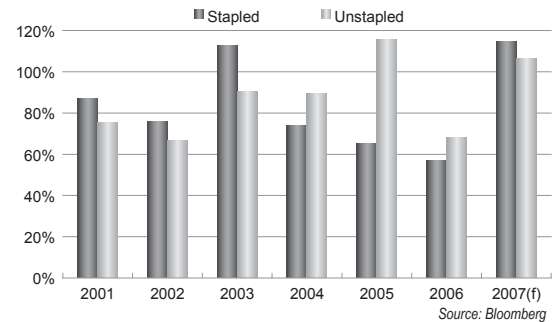
Currently, the ASX Property 300 Index is trading on a forward PE multiple of 18 times earnings, taking into account revaluations. When considering the unstapled securities, PE multiples are trading at just over 13 times compared to the overall market which is at approximately 17 times. This is one of a number of indicators that suggests there is value in unstapled LPTs.

Payout Ratios and Net Asset Backing

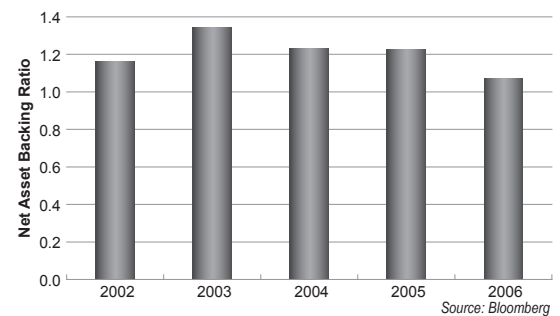
Another measure of determining fair value of the property market is to consider current payout ratios and net asset backing. A concern would be if there was a pattern of excess payouts unsupported by earnings. But as illustrated, this is simply not the case, therefore, the current distribution yields are well supported and reflect rental returns from the underlying assets.

Net asset backing is also indicating that share prices to net assets are offering good value at 1.1 times and further, this ratio has been improving due to the revaluation of assets over the past two years.

Payout Ratios



Net Asset Backing



LPT Sector Yields Compared to 10-Year Bond Yields

Our forecast for 10-year bond yields is for a rise towards 6% by the end of calendar year 2007. It is currently at 5.9%.

As it currently stands, the yield difference between the property and the bond yield has narrowed over the past two years. The last time this occurred was back in 1993-94. The LPT market during this time provided negative returns. That said, there is an argument that measuring property yields against inflation index bond yields is a correct method of assessing the yield differentials.

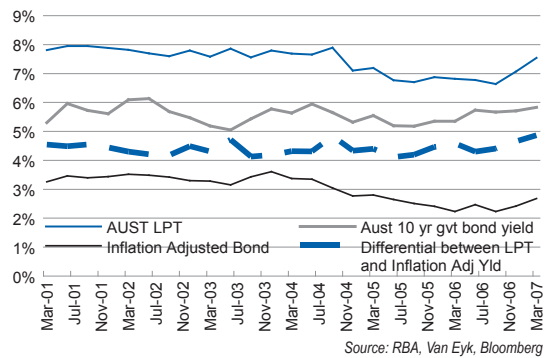
Given the 10-year bond yields indexed for inflation includes real yield plus inflation expectations, it is a better fit since rental income of LPTs is expected to grow with inflation in the long term. When measured against inflation adjusted bond yields, there has been minimal narrowing of the yield differentials.

Indeed, with the recent correction the differential has widened between index yields and LPT yields to the top of its range in recent years. It is also interesting to note the timing of the sell off compared to the noticeable rise in indexed yields. It is a point to note that if indexed yields continue to rise then it is likely LPT yields will also rise.



LPT Market

Property Yields versus Inflation Index 10-Year Bonds



- excluding the office sector, there would be minimal yield compression from this point; and
- oversupply concerns in some sectors for 2008.

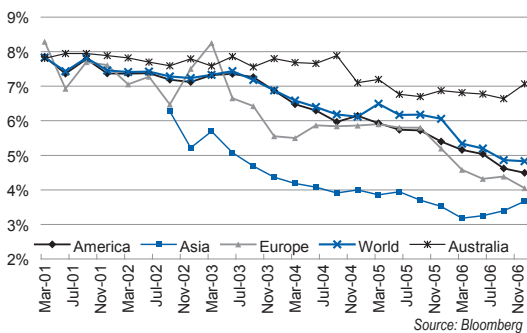
Based on our view for direct property and our belief that the listed property trust market follows closely the performance of the direct property market (notwithstanding short term movements in the ASX 200 index), returns for the S&P ASX 300 property trust index are also likely to slow in 2007 and considerably so in 2008.

That said, for those who choose a selective approach to the LPT market, there will still be opportunities for out performance such as those trusts with a high exposure to the office market, and particularly those where such an exposure is predominantly located on the east coast of Australia.

Australian LPT Yields versus Rest of World

While this is not a great apples to apples comparison due to each country's differing risk free rate of return, it does nevertheless reveal Australia still has some of the highest LPT distribution yields found anywhere in the industrial world. Such a differential may encourage further interest from overseas markets in our domestic LPT sector in 2007.

LPT Yields versus World



Overall, there are mixed signals being proved on whether the LPT market is offering fair value. Clearly, the index itself does appear to be expensive, even after the latest correction, however, there are some signals suggesting the market is not as expensive as what might first appear, particularly when we adjust for the stapled securities.

Forecast for the Listed Property Trust Market

As discussed earlier in this report, our primary view on direct property was:

- 2007 returns would be varied between property classes, with the office and hotel markets potentially outperforming the sector;
- total returns would moderately slow from this point for the sector as a whole;



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