

DIRECT PROPERTY – TO HAVE AND TO HOLD

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Following the global credit crisis, share market downturn and high profile problems of a number of property groups, there has been significant interest in the outlook for the direct property sector. Property groups have been looking to decrease their gearing, primarily through the sales of assets. However, there has been limited sales activity creating an environment of uncertainty around property values. The market conditions and uncertainty have driven the dramatic underperformance of the Australian Real Estate Investment Trust sector (formerly LPTs) in 2008.

This uncertainty has caused debate about the role of a direct property investment within a diversified investment portfolio and the long term investment strategy of the sector. Property investments are limited by the comparatively high transaction costs caused by stamp duty, lack of liquidity due to a typical 3-6 month sales process and the valuation methodology. These factors mean property is typically considered a long term investment.

In times of an uncertain market outlook it is important to consider the key investment decision making aspects when adjusting your strategy for a long term investment. This is particularly important with a direct property portfolio due to the above limitations. In reviewing the key aspects we have considered the following:

- In a diversified investment portfolio direct property acts as a defensive or moderate asset as it has a low correlation to other assets classes, reduces the risk of a negative return, delivers stable returns and provides an inflation hedge. In addition, it also has produced comparable returns to growth sectors like Australian Shares;
- Direct property should be considered a separate asset class to Real Estate Investment Trusts (REIT's) as their returns are not highly correlated;
- Total property returns will be enhanced and downside risk managed through active investment strategies, diversification benefits and the ability to adjust to the market outlook;
- The unique nature of direct property also means the Fund or Investment Manager's experience, performance history, investment philosophy, co-investment model; remuneration and overall skills can drive investment performance.

The role of direct property in asset allocation

Property is unique and there is substantial debate on the merits of its investment classification. The general consensus is that cash and bonds/fixed interest are defensive assets. Alternative investments, shares and venture capital are growth investments. Property holds the characteristics of both defensive and growth assets.

Property's defensive attributes for investors is the relatively constant income return which is supported by rental leases, while the capital appreciation provides investors with growth. The

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diversification benefits of a property investment are enhanced by a low correlation with other asset classes, the stability and strength of returns and by providing an inflation hedge.

Low correlation to other investment classes

If investment sectors are highly correlated they tend to be effected by similar economic conditions and investor sentiment. They will rise and fall together. Conversely, a low or negative correlation, results in differing periods of strong and weak performance.

Property has a low or negative correlation to both the defensive and growth assets. Direct property exhibits a negative correlation to both bonds and A-REITs. It also has a low correlation with shares. Table 1 indicates this is not a recent phenomenon with a consistent pattern over a 5, 10 and 15 year period.

Table 1: Correlations of direct property with other assets (period ending December 2007)

	5 years	10 years	15 years
CBA Bond: All Series, All Maturities	0.07	-0.05	-0.44
S&P/ASX LPT 300	-0.15	0.02	-0.21
ASX All Ordinaries	-0.01	0.48	-0.12

Source: IPD (Composite property information)

The benefits of property's low correlation are further highlighted when the correlation between other assets classes is considered (see Table 2). There are both defensive and growth assets that are comparatively highly correlated. For example bonds have a 0.38 correlation with Australian Shares compared to -0.28 with direct property. This indicates that for bonds and shares it is not the positive or negative movement but the magnitude of the return variance that would differ.

Table 2: Correlation Matrix: December 1984-December 2007

	Australian Industrial	Australian CBD Office	Australian Retail	Australian Composite Property	S&P/ASX LPT 300	ASX All Ordinaries	CBA Bonds	Inflation
Australian Industrial	1							
Australian CBD Office	0.82	1						
Australian Retail	0.45	0.67	1					
Australian Composite Property	0.85	0.98	0.76	1				
S&P/ASX LPT 300	-0.10	-0.13	-0.16	-0.13	1			
ASX All Ordinaries	0.03	0.00	-0.09	-0.01	0.59	1		
CBA Bonds	-0.36	-0.28	-0.14	-0.28	0.38	0.17	1	
Inflation	0.25	0.51	0.49	0.50	0.02	0.11	0.25	1

Sources: IPD Property Investors Digest March 2008

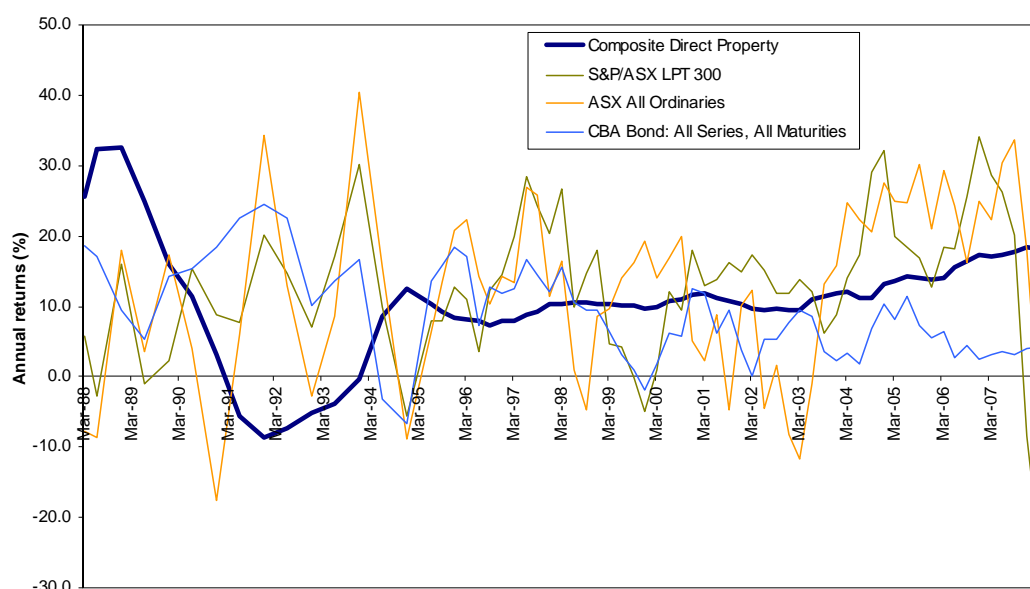
Stability of both income and total returns

The combination of defensive and growth investment attributes are reflected in the stability of both income and total returns. The total returns from direct property have been the most stable of the major asset classes over the last 20 years.

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This is even more pronounced since 1994 where total returns have remained between 10% p.a and 20% p.a. Importantly, these total returns are more stable than defensive assets such as Fixed Interest due to the unique combination of income stability and capital growth (see Chart 1).

Chart 1: Major asset classes – rolling annual returns to March 2008



Source: IPD, Australian Digest March 2008

The lack of income volatility across property classes compared to other investments indicates its defensive nature (see Table 3). Over the 10 years to December 2007 direct property provided a very low level of income volatility of 0.2% p.a. Over the 20 years the income volatility was only marginally higher at 0.3% p.a. In comparison fixed interest has income volatility of 4.3% p.a. and 3.1% p.a. over the same periods. Cash had volatility of 1.0% p.a over 10 years and 0.2% p.a over 20 years.

Table 3: Annual Income Returns and Volatility of Returns (nil Tax)

	10 year		20 year	
	Income Return	Income Volatility	Income Return	Income Volatility
Australian Shares	3.7%	1.2%	4.3%	1.3%
Overseas Shares	1.4%	0.2%	1.6%	0.2%
Residential Property	2.4%	2.6%	3.5%	3.8%
AREIT	6.9%	2.1%	7.9%	2.6%
Fixed Interest	5.8%	3.1%	8.3%	4.3%
Cash	5.4%	0.2%	8.0%	1.0%

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Managed Funds	4.0%	1.0%	5.3%	1.2%
Inflation	2.9%		3.2%	
PCA Composite	7.1%	0.2%	7.0%	0.3%
PCA Retail	7.1%	0.3%	7.6%	0.4%
PCA Office	6.8%	0.2%	6.5%	0.3%
PCA Industrial	8.6%	0.4%	9.0%	0.5%

Source: ADPIA

The common counter argument for the low income volatility of direct property is that the properties are valued infrequently. This does not give justice to the nature of direct property's defensive character. There are a number of characteristics which gives direct property its lower volatility.

The relative illiquidity and high transactions costs of direct property mean investors are more likely to rely upon the medium to long term outlook before making investment decisions, regardless of whether it is a buy or sell investment decision. Property is relatively illiquid as it will take 3-6 months to sell a property regardless of market conditions and the ownership transfer system of certificates of title and contracts of sale is more cumbersome than assets with higher liquidity. Transaction costs are also higher than assets such as shares with property acquisition costs of generally 5% to 10% of the price and sale costs of 2% to 5% of the price. Therefore, investors do not tend to trade in and out of the market on a short term basis as may be the case with cash, bonds, shares and other more liquid asset classes.

Investors are less likely to be driven by concerns of an earnings reduction as the income of a property portfolio generally lacks volatility. Lease contracts generally provide income security for a period of at least three to five years meaning the income return is not largely affected by short term economic conditions. As tenants are making a long term commitment and investment into a property they do not generally make short term relocation decisions. Subsequently, investors (or fund managers) can review strategy without concerns of evaporating earnings.

Furthermore, as property investments are unlikely to widely fluctuate in value over short periods and extremely unlikely to be worth nothing, a pattern of panic selling does not usually eventuate. Panic selling is generally aimed at protecting against further or a complete loss of capital. This can occur in equity markets because an individual company can lose anything up to 100% of its equity value.

Based on the above, property is not transacted on a short term basis. This however, does not diminish its' value proposition as a defensive play in a portfolio. It does highlight valid reasons behind the unique performance characteristics of direct property.

Strong income and total returns

Direct property has produced total returns that are comparable to the highest total returns across all sectors. The highest total returns have been from Australian shares at 13.5% p.a. over 10 years. The composite property index produced total returns of 11.8% p.a. over the same period. Returns of 12.8% p.a. by industrial property and 11.8% p.a. by retail property were the strongest property sub

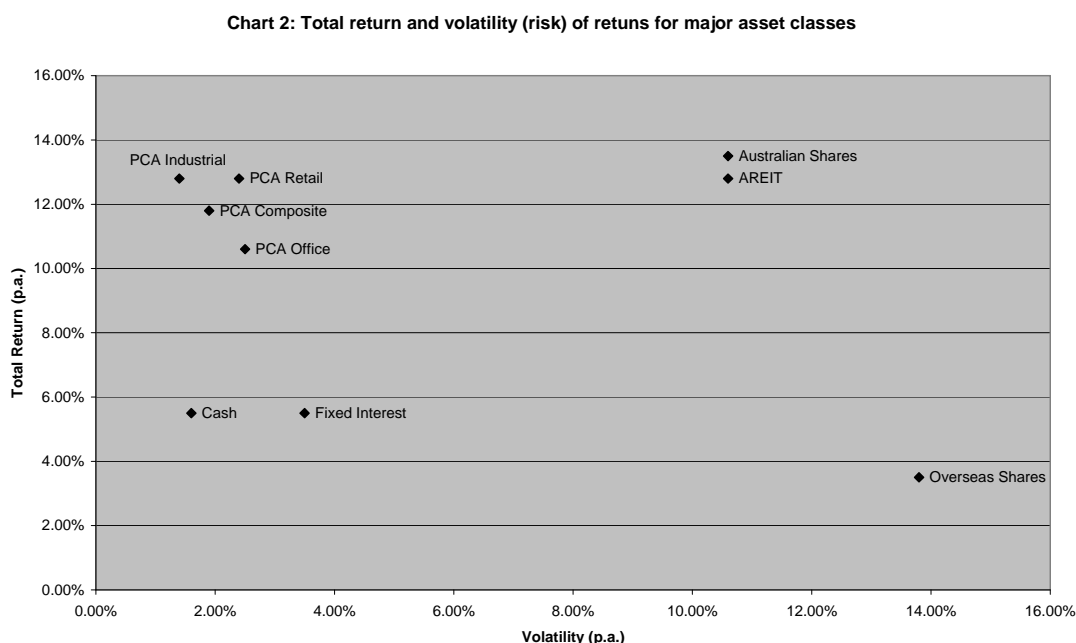
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sectors. The property returns are particularly strong when the lack of volatility discussed above is taken into consideration. (See Chart 2)

Direct property's total returns also benefit from being underpinned by a high level of income returns. Income returns over 10 years of 7.1% per annum are also the highest of the sectors. High income returns are also delivered in the listed Property, fixed interest and cash sectors. Australian Shares have delivered a comparatively low income return of 3.7% p.a.

The combination of high returns and a lack of volatility mean direct property provides one of the best risk adjusted returns as a result and making direct property stands out as a unique asset class when compared to other sectors (see Chart 2).

Chart 2: Total return and volatility (risk) of returns for major asset classes



Source: Atchison Consultants/IPD

Inflation hedge

The income structure and link of capital values to replacement costs provide a hedge against rising inflation. Many lease structures have rent reviews linked to the Consumer Price Index (CPI) or fixed at rates above the short to medium term CPI forecasts. Distributions should then grow with inflation. The replacement cost of a property also increases with rising price levels. The current drivers of inflation including steel and petrol prices directly affect the cost of buying materials and constructing new properties. To meet tenant demand for new space rents will need to increase to compensate for these increased costs before new development commences.

This argument needs to be considered in the context that interest rates also rise in times of high inflation. High interest rates tend to have a negative effect on business sentiment and retail spending, both of which will have a negative impact on tenant demand. The inflation hedge attribute is most prevalent where there is low vacancy at a time where inflation is increasing in many markets.

Are REITs (Listed Property Trusts) a suitable direct property exposure?

A significant number of investors use Real Estate Investment Trusts (REITs) as the vehicle to obtain a direct property exposure. This is driven by the increased liquidity and reduced transaction costs associated with shares (REITs) compared to direct property. There are a number of attributes that indicate that while REITs are based around property investment returns they are not a suitable surrogate direct property investment.

The difference between the two investment classes is best evidenced by their low correlation and the difference in volatility. There are other significant differences including the increase in overseas exposure, prevalence of stapled structures and amount of development risk of many Australian REITs (A-REITs).

As detailed in the previous section the correlation between A-REITs and direct property is -0.3. Furthermore, the performance of A-REITs are actually more closely correlated to Australian Shares (+0.59) and Bonds (+0.38). Further evidence of disparity is the difference in volatility of total returns. Over 10 years to December 2007 the volatility of A-REITs is 10.6% p.a. compared to direct property of 1.9% p.a. Over 20 years the difference is 10.2% p.a. compared to 4.3% p.a.

As A-REITs have continued to evolve the changes to their investment structure has further accentuated the difference between the investments:

- The increased overseas exposure has introduced foreign exchange risk to many A-REITs. This can be managed for a period with currency hedging but the risk can not be completely mitigated. In addition the performance of any property investment depends on local market conditions. An international portfolio introduces additional management challenges as more markets and local property industry structures need to be understood by the fund managers to drive performance.
- A stapled structure introduces additional risks. The traditional REIT structure invests in a property portfolio and the rental proceeds are passed through to investors as distributions. A stapled structure enables a business to increase returns on equity for investors by charging management fees to a separate investment entity. Having third party investors in the separate investment entity further enhances this return. While this may be a valid strategy it makes an A-REIT a less suitable surrogate direct property investment by introducing different risks and earnings profiles.
- A property investment moves away from being a defensive investment to a growth investment through taking on additional risks. Property risks increase with more leasing, refurbishment or development risk. With the aim of increasing total returns many A-REITs have increased their risk profile by increasing exposure to these areas. The constitution of many unlisted property trusts and direct property mandates will restrict the ability of a manager to expose investors to these risks.

Attributes affecting the performance of a direct property investment

If direct property is an important element of a diversified investment portfolio, what are the key factors influencing the performance of a property investment? Most investors treat direct property as a defensive or moderate investment. Stable income, steady capital growth, low probability of a loss and a hedge against inflation are considered attractive attributes in a direct property

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investment. Given the above, diversification within a property portfolio is an important element in meeting investor expectations.

Diversification benefits

Portfolio diversification enhances the defensive attributes of a property investment. There are many ways a property portfolio can be diversified. Monitoring diversification by sector, geography and tenant covers some of the key areas that can enhance the defensive benefits.

1. Sector Diversification

Property sectors are influenced by divergent factors and economic conditions.

Retail, office and industrial sectors are considered the core sectors of the property investment universe. Non-core sectors include hotels, leisure, hospitality, tourism, retirement and government infrastructure (hospitals, universities etc).

The core sectors are considered to be the most stable and defensive property investments. The non-core sectors tend to have more specific influences for example tourism and hotels. It is the different market forces that mean each sector behaves differently through the economic cycles.

The differing influences in the core sectors of retail, office and industrial highlight this effect. The performance of retail property is linked to retail spending combined with the demographics and competition within its catchment areas. Tenants are less likely to relocate as their revenue is closely linked to the property location. Office properties are more susceptible to dramatic increases in supply or strong tenant demand in time of low vacancies. The rent and incentives fluctuate in the office sector more than other core sectors. Given the long lead time to build a new CBD office building the markets can be more predictable. White-collar employment is a key indicator of tenant demand. Industrial property is affected by a broad range of economic indicators including import/export markets, manufacturing outputs and local demand for warehousing. The introduction of new infrastructure will change market dynamics.

2. Geographic Diversification

While the drivers of sectors are consistent nationally, the local market conditions will impact on investment performance. For example, the Brisbane and Perth CBD office markets have experienced record levels of rent growth of greater than 85% over the two years to 30 June 2008 on the back of sub 3% vacancy rates and strong economies continuing to drive tenant demand (Source: Jones Lang LaSalle). Over the same period rental growth in the Sydney CBD has been restrained by its dependence on the financial sector where growth has slowed following the 'credit crunch' in the US. However, rents in Perth and Brisbane seem unsustainable as a new building can be developed at cheaper rents than existing buildings. An investment portfolio with exposure across different markets will benefit from an exposure to various growth cycles.

3. Tenant Diversification

Income stability is a key attribute of a property investment. Having a greater number of tenants reduces the risk associated with any one tenant. Regardless of the quality of the tenant there is a risk the tenant will relocate, reduce the size of their requirement, no longer need a particular property or simply not be able to meet their rent payment obligations. A large number of tenants will mean no single tenant will have a significant impact on the investment performance. In addition, a large number of tenants mean a tenant will not be able to exploit the dependence of the investors on their rental payments in lease negotiations.

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A large number of tenants enable diversification across different sectors of the economy such as government, mining, insurance, retailers and banking. Again all of these business sectors have different growth drivers and will be looking to contract and expand at different stages.

Property market outlook

Property investment performance is largely influenced by four key areas: the investment market, tenant market, property specifics (e.g. age and design) and the tenant/lease expiry profile. The performance of the A-REIT sector in the first six months of 2008 and debate around the outlook for property is primarily a result of the investment market led by the global credit crisis. The property specifics and tenant/lease expiry profile are more specific to each property investment and to a degree they can be managed through diversification. The current tenant market is quite different to the major down turn of the early 1990s. For example, retail spending growth averaged 4.8% during the 1990's compared to an average of 6.4% during the 2000's. Employment growth averaged 1.1% over the 1990s, but has increased to 2.2% over the last eight years (Source: ABS).

Overall investor sentiment and increased volatility in interest rates has affected the outlook for property values. The negative value outlook is likely to remain while the volatility in debt and equity markets continues. However, property performance is more typically driven by leasing markets, not the investment market. While tenant demand is sustained and supply constrained by high construction and interest costs the market should be insulated from long term under performance.

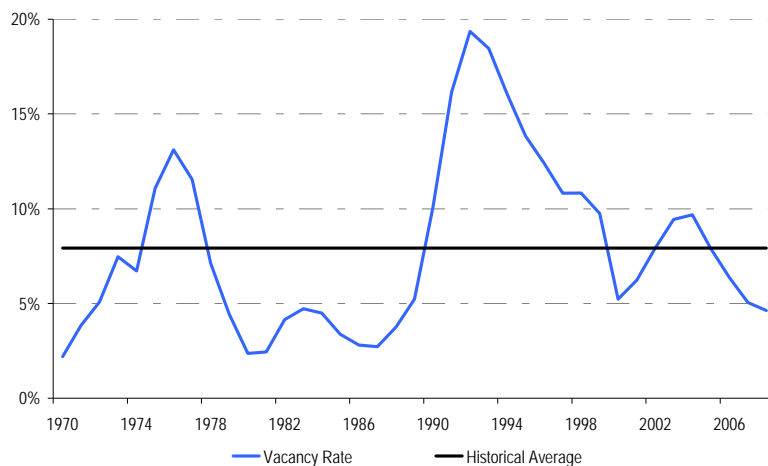
Economic Overview

In their April 2008 'World Economic Outlook', the International Monetary Fund (IMF) stated that the global economy is projected to slow in the next 24 months, predominately as a result of lower growth expectations in the US and Europe. Despite the reduced output forecasts, the global economy is still predicted to record solid growth of 3.7% and 3.8% in 2008 and 2009 respectively. The prospects for the Australian economy mirror those globally. The IMF projected GDP growth to slow from 3.9% in 2007 to average 3.2% per annum in 2008 and 2009. Trend growth for the Australian economy is between 3.0% and 3.5%. With the headline economic outlook positive, it should provide a supportive backdrop for commercial property market fundamentals in Australia.

Office Market

Positive conditions have driven demand for office space. Over the past four years, net absorption has averaged 720,000 sqm per annum. Supply additions in the majority of markets have not matched tenant demand, cumulating in a tightening of vacancy rates. The downward trajectory in vacancy rates over the past four years is highlighted in Chart 3. At the end of the March 2008 quarter, the aggregate national vacancy across was a low 4.6%, which is significantly below the long-term average of 7.9%.

Chart 4: National Office Vacancy Rate, 1970 to March 2008



Source: Jones Lang LaSalle Research & Consulting

Supply and demand fundamentals have translated into upward pressure on rents and a decline in market incentives. In CBD markets, prime gross effective rents have increased by an average of 47.2% (Perth), 41.0% (Brisbane), 13.1% (Sydney), 8.3% (Canberra), 8.2% (Adelaide) and 7.8% (Melbourne) per annum over the past 3 years (2005-2008).

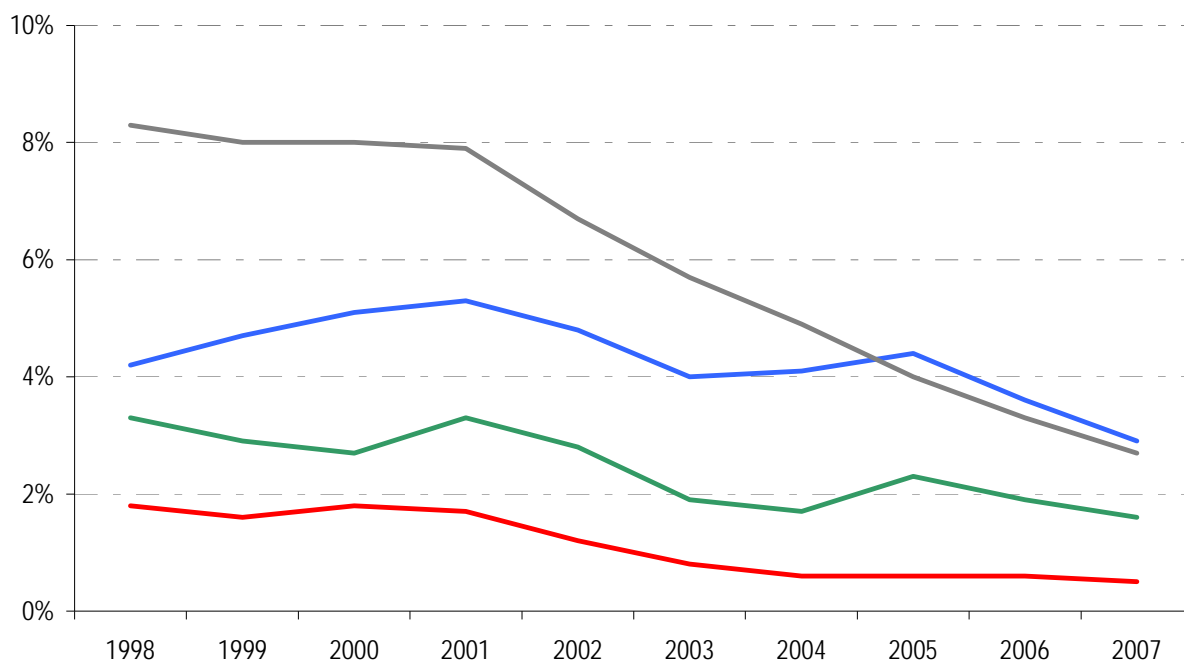
Assuming the Australian economic growth continues and white collar employment expands this would drive net absorption across the office sector. Therefore the rental outlook for the office sector should be positive. However, following the credit crisis and write downs by the Finance and Insurance sectors there is likely to be a 'slow down' in demand in this sector.

On the supply side, developers have sought pre-commitments prior to the commencement of new projects. In CBD markets, projects under construction and slated for completion before the end of 2010 equates to 8.5% of existing stock. At the end of the March 2008 quarter, approximately 55% of the space was already pre-committed. There is an unfounded concern in the marketplace that the current construction cycle may replicate the early 1990s. At the start of 1990, projects under construction and slated for completion before the end of 1992 equated to approximately 20% of existing stock, more than double today's supply pipeline.

Retail Market

The retail market is characterised by low vacancy rates across all of the retail categories as highlighted in chart 4. At the end of 2007, national vacancy rates in enclosed centres were 0.5% (regional) 1.6% (sub-regional), 2.7% (neighbourhood) and 2.9% (CBD).

Chart 4: National retail vacancy, 1998 to 2007



Source: Jones Lang LaSalle Research & Consulting

Retailers have moved towards a lower margin / high volume business model that requires more stores. In Jones Lang LaSalle's 'Survey of Retailer Sentiment – November 2007', 85% of retailers indicated that they were expecting to undertake some form of expansion over the next 12 months. However rising interest rates leading to a decrease in retail spending is likely to change this outlook.

The slowdown in retail turnover growth will ensure a more challenging environment for centre owners and retailers. However, with only moderate supply additions projected, rental rates are forecast to continue to grow at a solid pace (Source: Jones Lang LaSalle).

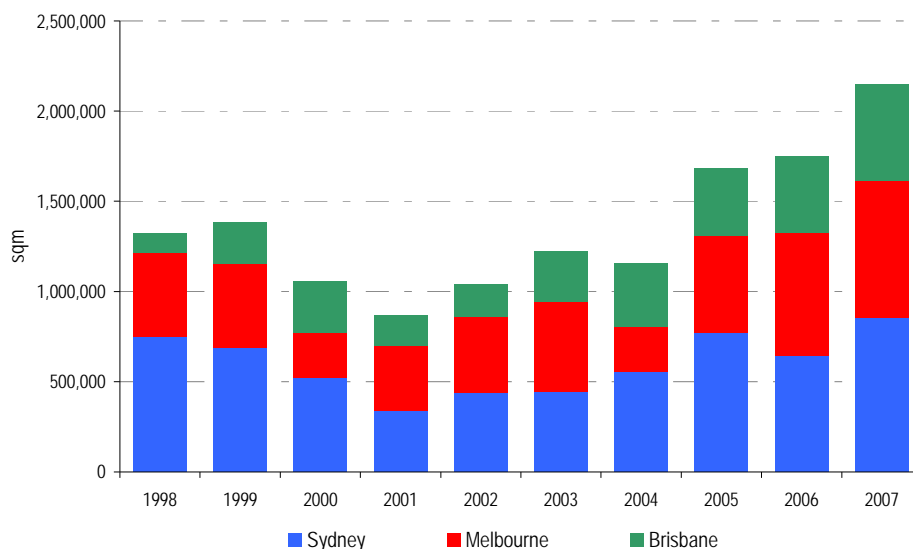
Industrial Market

The industrial market has experienced a structural revolution and strong growth in demand from warehouse and distribution firms. Land release on the urban fringe has facilitated demand for large warehouses and infrastructure improvements such as EastLink in Melbourne's South East are being developed to improve accessibility and reduce travel times.

The outlook for the industrial sector is closely linked to the output from the Transport & Storage sector. Access Economics project growth in the Transport & Logistics sector will average 3.8% per annum between 2008 and 2010, which should ensure continued demand from industrial occupiers.

Chart 6 shows that over the past 3 years, supply levels have escalated to meet the evolution in tenant demand. In 2006, completions in the eastern seaboard market totaled a record 1.75 million sqm, and then increased by 22.6% in 2007 to 2.15 million sqm in 2007. This supply will moderate rent growth prospects.

Chart 6: Eastern seaboard industrial supply (projects > 5,000 sqm), 1998 to 2007



Source: Jones Lang LaSalle Research & Consulting

What to look for in a property fund manager

When it comes to direct property investment, not all fund managers are the same. There are several important issues to be considered when deciding who will manage your direct property allocation. The most important issues to consider are as follows:

- Relevant Experience
- Performance
- Investment Philosophy
- Debt Management
- Co-investment
- Remuneration

Relevant Experience

The most important issue to consider when selecting a fund manager is whether the manager has the relevant experience to properly manage the assets the fund invests in. For example, you would expect the manager of a direct property portfolio to have many years of experience in the property industry, as compared with perhaps experience in accounting or investment banking. Similarly, if the fund is investing in a portfolio of office assets, you would expect the fund manager to have staff with significant experience in managing office property (as compared with experience managing residential or hotel property). The issues involved with managing each particular asset class can be very different and experience in the residential property industry does not necessarily translate to an understanding of commercial property.

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The next most important issue is how the fund manager has performed over the medium to long term. An assessment of performance should include not only a review of annual returns over say, 1, 3, 5 and if possible 10 years, but it should also consider the volatility of those returns. Benchmarking of performance to peer groups and relevant indexes is also important. For example, a fund manager who has consistently delivered top quartile returns against its peer group with volatility at or around the volatility of the relevant benchmark would be considered favourably.

Investment Philosophy

The investment philosophy of a fund manager in direct property can differ significantly. Some fund managers consider themselves “core”, others “core-plus” and still others “value-add”. These different investment philosophies relate predominantly to the targeted returns and associated risks of those returns.

A “core” fund generally seeks to deliver highly secure and stable income from a quality portfolio of property. The income is secured by long term lease covenants of greater than 5 years to highly rated tenants. The property is generally in sought after locations and less likely to need capital expenditure.

A “core-plus” fund is similar to a “core” fund, in that the majority of the investment portfolio would consist of core property assets, however, they may seek to enhance the return of the core portfolio with some other assets with a higher risk profile. This may include assets that require more capital expenditure and/or assets that require significant leasing. These assets are intended to produce higher returns enhancing the total portfolio return.

“Value-add” funds typically focus on portfolios of development assets or assets with some development risk attached. A value-add strategy is traditionally more short term with a buy and develop and sell approach.

These skill sets are very different and a “core” manager will not necessarily have the development expertise to manage a “value add” fund. When reviewing a fund manager and any fund it is important to understand the investment philosophy of the manager.

Debt Management

The fund manager should establish and articulate policies in place regarding gearing targets, debt maturity profiles, interest rate hedging targets and diversity of debt providers. Different policy levels in regard to these items can materially affect the risk profile of the fund manager particularly when debt markets are volatile.

For example a fund manager that only renews debt facilities and hedging contracts for periods of 12 months faces significantly more refinance risk (ie: ability to renew debt facilities for further periods) and interest rate risk (ie: higher rates in a rising interest rate environment) than a fund manager which renews debt facilities and hedging contracts for 4+ years.

The strategy which is likely to produce the least volatility is to have staggered debt and hedging maturities so that only a portion of the fund manager’s debt facilities and hedging contracts mature in any one year. This approach exposes the fund manager to only partial cost increases (in a rising

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interest rate environment) and also provides the fund manager the opportunity to take advantage of lower prices in a falling interest rate environment.

If a fund manager has adopted a different policy, it is important to understand the drivers of that policy. It is possible that variances to this approach are in the fund manager's interest. A fund manager looking to significantly reduce gearing may choose to have all debt facilities maturing together to allow them to be renegotiated on more favourable terms or it may be a fixed term fund where all debt facilities have been aligned to the maturity date of the fund.

For larger funds it is also important to understand whether the fund manager uses multiple or single debt providers. In volatile debt markets, debt providers are likely to respond in different ways. A fund manager that utilises various debt providers is likely to be less affected from one or two banks taking an "outlier / negative" view of the market. A fund manager which uses a single (or two) debt providers can be significantly impacted by a bank taking an "outlier / negative" view on the market. In addition, a fund manager which is highly reliant on one debt market (eg: the Capital Markets or Commercial Mortgage Backed Security market) can be significantly impacted if that market no longer provides debt on commercial terms.

Co-investment

Another important aspect to consider when selecting a fund manager is whether the manager will "co-invest" in the fund with investors. There are few better mechanisms for aligning a manager to the interests of its investors than for the manager to invest its own capital in the fund. A manager who is prepared to place its own capital at risk with the capital of its investors should generally be favoured over a manager who does not co-invest.

While there are other mechanisms to align the interests of a manager with its investors (such as an appropriately structured performance fee), no such mechanism is more effective than the manager having its own capital at risk. An example on how to tell if the manager is really risking its capital along with investors is that the company itself is also investing alongside investors.

Remuneration

The remuneration structure of the fund manager (and its employees) is also very important when selecting a manager. While many fund managers will receive a base fee (or base wage) it is important that a significant proportion of their remuneration is "at risk" and dependent on the performance of the relevant asset or fund they manage. Such remuneration structures are to be favoured over those who reward the manager (or employee) regardless of the performance of the fund or asset. Fund managers who are rewarded regardless of performance have little motivation or incentive to maximise the performance of a fund.

Conclusion

In reviewing the role of direct property in a diversified investment strategy we have considered the diversification benefits mainly driven by a low correlation to other sectors and the defensive aspect of direct property. In addition we concluded that A-REITs should be considered a separate, even complementary investment to direct property. We also reviewed some of the investment strategies and market outlook that should drive returns through the investment cycle. Finally, given the unique

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attributes of direct property we also looked at some of the defining attributes that should be considered when choosing your investment managers.

Overall, the above factors build a strong argument for direct property to have an ongoing role within a diversified portfolio. In addition given the relatively high transaction costs it is not a sector to opt in and out of as one might with equities, bonds and cash. Over a sustained period and through cycles property investments has demonstrated an ability to deliver strong returns and enhance the diversification benefits of a portfolio.

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