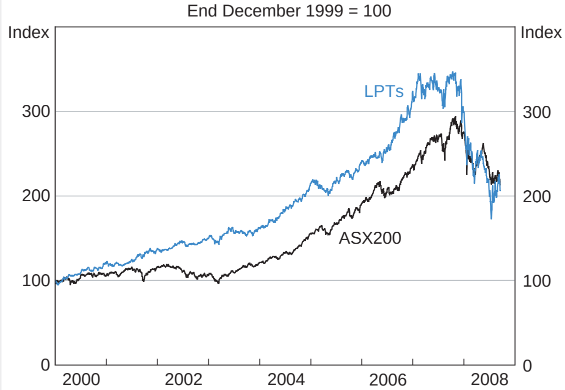
# Box A: Australian Listed Property Trusts

As an actively traded investment class, listed property trusts (LPTs) provide an indication of conditions in the commercial property market. Available evidence suggests Australian LPTs own around one third of domestic commercial property, with ownership of the remainder divided reasonably evenly between unlisted property trusts and institutional investors. Australian LPTs also invest in commercial property overseas, with around one quarter of their assets located in the United States and a further 10 per cent in other countries, mainly in Europe.

LPTs have traditionally been considered a relatively defensive investment that provide stable dividend income. Over the period from 2000 to 2007, the average annual return on LPTs was 14 per cent, which was similar to, although less volatile than, the average return for the broader equity market (Graph A1). This strong performance was underpinned by robust growth in domestic commercial property prices, with office, retail and industrial property prices increasing at average annual rates of around 7 to 10 per cent over this period (Graph A2).

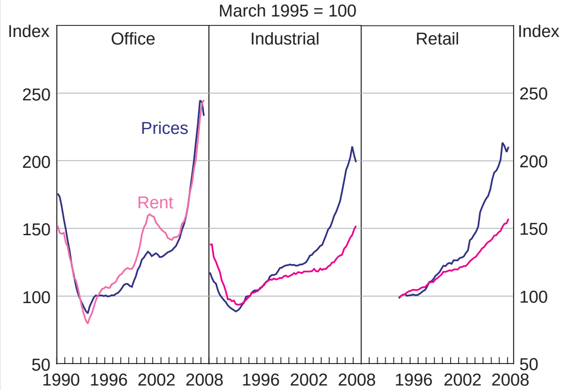
One factor supporting prices over recent years has been the strong growth in economic activity. This is particularly evident in demand for office space, with the national vacancy rate having fallen sharply in recent years to just over 4 per cent, around its historical low, and office rents increasing at an average annual rate of 8 per cent since 2000. Another factor has been the favourable financial environment, and in particular the global search for yield which saw a fall in risk

**Graph A1**
**Accumulation Indices**
End December 1999 = 100




Sources: Bloomberg; Thomson Reuters

**Graph A2**
**Commercial Property**
March 1995 = 100

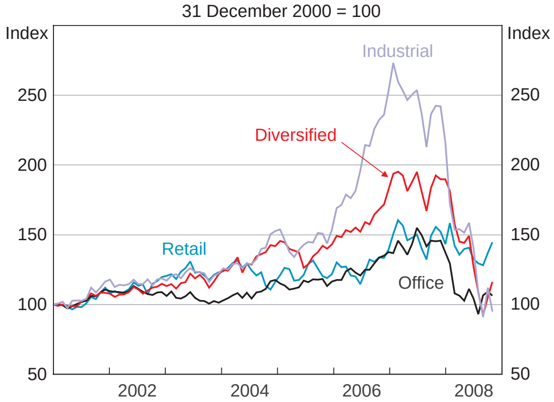



Sources: Jones Lang LaSalle; RBA

premia demanded by investors and low interest rates around the world. Moreover, credit was readily available to the commercial property sector.

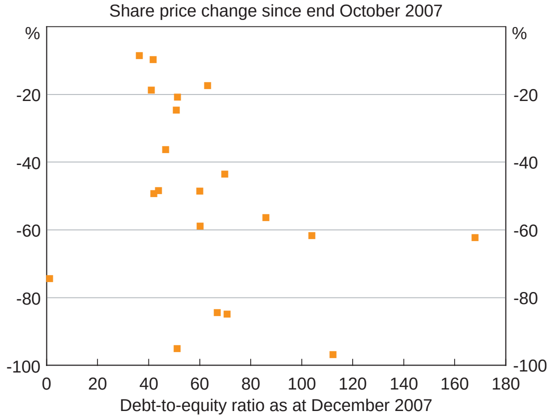
As with many investors around the globe, domestic LPT managers responded to the favourable macroeconomic and financial conditions over recent years by increasing leverage. Reflecting this, the average debt-to-equity ratio on LPTs has increased, rising from around 50 per cent in 2000 to around 70 per cent currently. Available data suggest that around half of LPT debt is sourced from capital markets, with the remainder from Australian and foreign banks.

**Graph A3**
**Listed Property Trusts' Share Prices**
31 December 2000 = 100




Sources: Bloomberg; RBA

**Graph A4**
**Listed Property Trusts' Gearing and Prices**
Share price change since end October 2007




Sources: RBA; Thomson Reuters; company accounts

The recent turmoil in global markets has seen significant declines in the share prices of many highly leveraged entities, including LPTs. Moreover, some LPTs that relied on short-term funding have experienced difficulties rolling over debt, and access to commercial paper markets, particularly in the United States, has also been limited. In response, some LPTs have cut dividends and have sought to lower gearing through asset sales and by increasing equity, either by introducing a dividend reinvestment plan or seeking additional capital. Since November 2007, LPTs have underperformed the broader equity market, with the LPT index falling by 36 per cent, compared with a 25 per cent decline in the ASX 200. The decline has been largest for LPTs investing in the industrial and diversified sectors and for the most heavily geared LPTs (Graph A3). For example, the share prices of the 5 most heavily geared LPTs have fallen by an average of around 70 per cent since end October 2007 (Graph A4).

The falls in LPTs' share prices have also reflected downward revisions to expected earnings, with rental income growth forecast to slow and rental yields expected to rise as risk is repriced. Concerns about exposure to markets with deteriorating economic outlooks, such as the United States and United Kingdom, have also weighed on some LPTs.