

CASH CLUB YIELD STOCKS TO BEAT THE WILD MARKET

FINANCIAL REVIEW

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# Property at a crossroads

Real estate was once front and centre in the Australian investment dream. But recent interest rate hikes and a growing prevalence of increasingly debt-fuelled structures have made it more like a nightmare. Our industry experts advise on how to navigate the property game – both through listed property trusts (LPTs) and direct property – and still get your hands on some good returns.

## OFFICES STRONG



**DANIELLE CARTER**  
PORTFOLIO MANAGER  
BLACKROCK

### TIME FOR PROPERTY?

Despite the turmoil across debt and equity markets, Australian direct property has performed strongly over the last year. The outlook for rental growth remains strong, particularly across office markets where vacancy rates are at historic lows. However, as debt becomes more expensive, highly leveraged owners may be forced sellers. We anticipate there may be some softness in the value of assets which are of lower quality or offer less attractive growth prospects.

### LOCATION, LOCATION?

In Australia, we believe Sydney offices will be the best-performing sub-market in the year ahead. With low vacancy and a subdued supply outlook, this market offers the prospect of significant rental growth. The sell-off in the listed property trust sector has created a number of attractive opportunities. Trusts with modest levels of gearing and operators with proven funds management or development businesses have fallen to levels which offer long-term value.

## RESIDENTIAL FLAT



**ROD CORNISH**  
HEAD OF RESEARCH, PROPERTY  
MACQUARIE GROUP

### TIME FOR PROPERTY?

Typically after every previous equity market slump, interest rates have been cut to spur the economy, which has improved housing affordability. But this time rates have risen because of strong economic growth. After a pick-up in residential prices in 2007, we're likely to see a couple of years of flatter growth before we see the next phase of the cycle. Longer term, prices will rise first in inner areas, close to facilities, particularly as this is where rental demand is strongest.

### LOCATION, LOCATION?

East coast residential markets will be flatter over the next year or two, before the next upswing. The best yields are expected to come from apartments, where rental demand is strong – like Sydney's inner east and Melbourne's near-city fringe. Here, gross yields of 5 per cent are achievable in the \$400,000-\$600,000 range. In non-residential, LPT yields have increased significantly, although volatility is expected to continue until credit markets show signs of stabilisation.

## CHOOSE CAREFULLY



**CHRIS GRAY**  
PROPERTY INVESTOR  
RED WEALTH CREATIONS

### TIME FOR PROPERTY?

If you're a long-term investor like me, any time you can afford to buy is a good time. You just need a cash/equity buffer to manage the cash flow differences between your repayments and rental income. Despite higher interest rates, many areas are seeing the growth right now. But choose carefully. Distressed sales will always mean a bargain for buyers, but sometimes it can be better to pay more to get into a better area that will always grow.

### LOCATION, LOCATION?

The safest bet to profit with property is to buy direct residential – it gives investors more control and enables them to leverage their money 5 to 10 times. I always buy median-priced property 5 to 15 kilometres from a major CBD. These are always in demand by tenants or sold fairly easily. Being a Sydneysider, I've found the beaches to be a fairly safe investment. I've doubled my portfolio there in the last six months, so you could say I'm following my own advice.

## CAUTIOUS ON LPTS



**CYNTHIA HARDY**  
INVESTMENT ANALYST  
BT FINANCIAL GROUP

### TIME FOR PROPERTY?

I remain cautious about the LPT sector, which, I believe, faces serious challenges. Current property sector headwinds include – but are not limited to – interest rate rises, falling property valuations and tighter lending standards. Through this reporting season, we have already seen a number of trusts write down asset values as well as suspend or cut distributions – and there is likely to be further bad news to come, leading up to the full-year results season.

### LOCATION, LOCATION?

My preferred LPT exposures in the current environment are those trusts that are purely Australian-focused. In addition, I am attracted to those vehicles with lower gearing and prudent capital management skills. The LPTs that best satisfy these requirements are those of Colonial First State Retail Property Trust (CFX), Commonwealth Property Office Fund (CPA), Stockland (SGP) and Charter Hall Group (CHC).

## LPTS APPEALING



**JOHN P. KIM**  
SENIOR REAL ESTATE ANALYST  
MERRILL LYNCH

### TIME FOR PROPERTY?

We believe LPTs are attractively priced and see a number of stocks trading at appealing valuations. While property stocks may have bottomed, the sector may stay at these levels for a while as there are likely to be more near-term headwinds than positive catalysts – particularly with the fragile debt markets globally, and rising interest rates in Australia. Lower quality LPTs may show some downward pressure, but for the most part risk has been priced in already.

### LOCATION, LOCATION?

In general, we don't recommend the higher yielding LPTs – there is a reason why certain stocks are cheaper than others. With the entire sector trading at a discount to valuation, we recommend the large-cap, quality LPTs with strong balance sheets, high-quality assets and management teams with established track records. These tend to be the stapled trusts. We prefer LPTs that own and manage Australian super-regional malls or the Sydney office markets.