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Listed property stocks set to soar

Wednesday 23rd September 2009 [Text too small?](#)

Listed property trust shares are set to soar if New Zealand enters a sustained period of inflation, according to NZ Funds Management.

Chief investment officer Michael Lang says in the last couple of years investors have been focused on protecting their capital and guarding against the ravishes of deflation. But the future of investing will be all about guarding against inflation as the government prevents the economy from being stifled by keeping interest rates low.

"The big lesson of the 1930s was for governments not to raise interest rates too quickly and stifle the fragile recovery. This time round central bankers are unlikely to make the same mistake and are more likely to keep rates lower for longer. This will fuel inflation and lead to a rise in property returns."

In an inflationary environment few asset classes do better than property. NZ Funds research shows there is a very high correlation between inflation and property.

"Property also performs in line with a rising sharemarket during periods of low inflation so it is a "win-win" investment. Global inflation peaked during the periods 1945 to 1948, when it was 9.6% annually, 1972 to 1982, when it was 8.9% annually and 1989 to 1990 when it was 5.6% annually.

"For almost two years now property as an investment has hit the headlines for all the wrong reasons, which is exactly why it makes sense to look at it now," Lang says.

Its attractive attributes include the certainty of its business model and that a large proportion of returns are derived from yield which is relatively stable.

But not all property will be a good investment.

"The first distinction investors need to make is between unlisted and listed property. Buying either a rental property or commercial property is not an investment proposition, it is a business proposition," he says.

"Investors who buy property directly or through a syndicate expose themselves to all the risks of property investing." This includes tenent risk, property price risk, interest rate risk, bank covenant risk and liquidity risk - in a highly concentrated manner.

"If anything goes wrong it might take six or more months to sell your property or longer if you are part of a syndicate. This means the normal risks associated with property investing get put on steroids if things go wrong," says Lang.

Lang believes listed property, or real-estate-investment-trusts (REITs) as they are known in the United States, will prove to be a superior investment. Globally listed REITs own everything from office buildings, to shopping malls and hospitals.

New Zealand house prices are up a mere 2.5% for the seven months to 31 July 2009, while Property Council New Zealand found that CBD offices experienced a - 5.2% total return for the year to June 2009.

However, since their lows earlier this year, New Zealand REITs are up 15% and global REITs are up 76%. New Zealand's three largest listed-property trusts (Kivi Income Property Trust, AMP NZ Office Trust and Goodman Property Trust) are up between 14 and 24% from their lows earlier in the year.

Lang expects listed property trust to continue to outperform. "If you look at any property market in the world, including New Zealand, the very best real-estate is always owned by a listed property trust."

Not only is the property high quality, but by owning a portfolio of property stocks, investors do not become over exposed to any one geographic region. There is also the benefit of REITs' attractive tax status in most markets. For example, in New Zealand our listed-property trusts are PIEs, which means that their dividends are non-assessable income.

Most importantly, if investors wish to exit their investment REITs are totally liquid so investors never become trapped.

However, the big downside of owning a diversified portfolio of REITs is that whenever the share market dives so does the price of listed REITs.

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FBP	3.22	●	0.00
FRE	3.14	●	0.00
GMT	1.00	●	0.00
IFT	1.71	●	0.00
KIP	1.07	●	0.00
NZO	1.62	●	0.00
RYM	1.84	●	0.00
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Comment & Analysis

"The NZD remains caught up in global forces. Last week the NZD generally weakened, falling against 30 of 38 monitored currencies but it was the gain against the weakening USD (and GBP) that received most attention. Over 4 weeks the NZD has appreciated against 34 of these currencies with one of the exceptions being the [...]"

Anthony Byett [More >](#)



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