Adviser Edge

NATIONAL PROPERTY SECTOR UPDATE 2008

INDEPENDENT ASSESSMENT

This report has been prepared for financial advisers only

Report Date: 24th July 2008

CONTENTS

Underlying the assumptions and forecasts of this report has been data provided by:

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

As reliable and timely data is hard to come within the residential and commercial property markets, the statistics used in the January 2008 report have since been subject to revision. Due to the time-lag often present in such data raw transactional data has been sourced by Adviser Edge for this update. We believe such informational will provide the best insight into current market conditions well before it flows through to mainstream data providers.

Due to the relatively small number of transactions that occur in the commercial property market especially, it is still not possible to measure smaller geographical areas with confidence. It is intended for this revision to keep a prime focus on the largest domestic markets.

Adviser Edge notes that some discrepancies may be displayed in the relationships between the historic recorded figures for rental growth, yields and capital growth. This is due to a combination of factors, as outlined below:

- Capital value growth is transaction based. As sale prices are generally factored on existing rent and reversion, capital growth may outstrip that expected from that period's rental growth.
- The growth in market rentals is based on new leases, not reviews of existing rents.
- Furthermore, time lags and a lack of homogeneity cloud the data further.

As a consequence, the figures shown in the tables in this report provide an overview of the situation rather than a precise metric.

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 low volume of transactions that occur in the property markets that make compiling reliable statistics a difficult process.

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 medium term.

Welcome to the July 2008 National Property Market Update.

The first half of 2008 has clearly recorded a major rout in both domestic and international property markets of all sectors. Listed Real Estate Investment Trusts have fallen over 30%, capitalisation rates on direct commercial property have risen sharply, and residential property prices started to fall. In our January report, we forecasted a moderate slowdown in the property markets, but still projected overall positive returns for 2008.

Our forecasts were based on the view at the time (made in December 2007) that the Reserve Bank of Australia and others would support economic growth over and above the threat of inflation. Doing so would have seen additional growth to Money supply, thereby inflating real estate prices and market rents in its many forms as precisely what occurred in the 1970s.

However, it became clear that the Reserve Bank decided it would fight inflation first, with money supply growth not accelerating in the way we anticipated. Further to this, restrictions in accessing the global credit pool have been more acute than what was previously assumed for this year.

Given this, we have now revised our outlook for the remainder of the 2008 year and into 2009 and therefore we believe it prudent to release our revised estimates plus provide a snapshot of what is really happening in the market place from an independent viewpoint.

Assuming the fight to quell inflation remains the top priority of central bankers and in particular, the RBA, it is highly likely that real estate, both commercial and residential, will record negative returns for the remainder of this year and will unlikely post positive returns until the cost of credit is reduced and access to credit made less restricted.

We hope you enjoy the report.

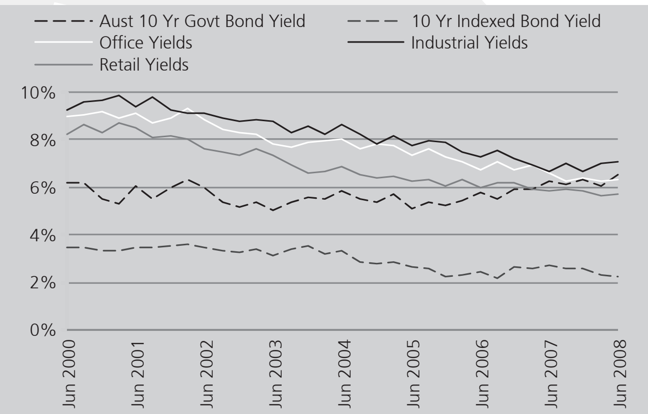
Louis Christopher
Head of Property Research
Adviser Edge

Credit Conditions Worsening
Little relief has been found for the credit market both domestically and abroad in the year thus far. The official cash rate has continued to rise, with lending rates of major banks further increasing independently. The tightening of lending criteria has also been evidenced, with housing finance taking a major hit in the first half of 2008, down almost 20% since December 2007. It is expected that the worst is yet to come however, with a full blown credit crunch having the potential to cripple the domestic property market.

Growing Evidence of Residential Fallout
Without a loose financing market to support asset prices, it appears as though the residential market is set to face some tough times throughout 2008 and 2009. Vacancy rates of investment properties have been rising notably throughout recent months, and relief seems far from view, with supply set to come on strong for both Queensland and Melbourne in the near-term. While there has been a gap between demand and supply, it is clear that gap has now narrowed.

Heavily Discounted A-REIT Market Not Unreasonable
After adjusting broadly for the effects of gearing on net asset value sensitivity, it appears as though the A-REIT market has priced in an approximate 50 to 100 basis points softening of underlying properties, with those purer unstapled trusts trading at an even higher discount – equivalent to softening of 100 to 200 basis points. With this in mind, our long-term outlook for the A-REIT market is now one of consolidation, however, short-term volatility is likely to continue for the months to come.

Evidencing an End to Cap Rate Compression



Source: Adviser Edge, CPM Research Data, RBA (F02)

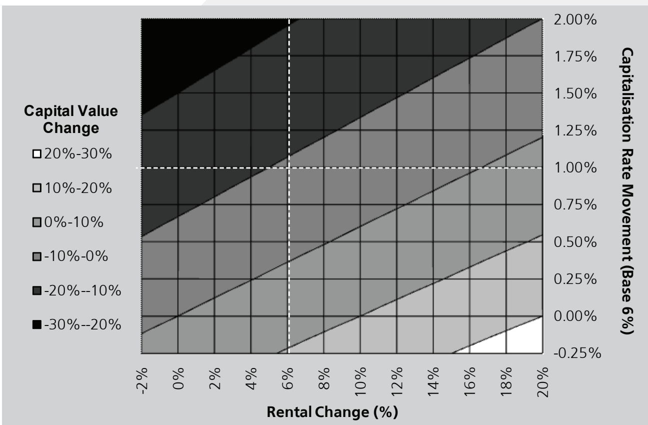
Historically we have seen yields on property closely move in-line with indexed government bond yields, and while at the moment they continue to fall, it is our position that indexed bond yields will begin to trend upwards with the movements of regular government bond yields, placing strong upward pressure on property capitalisation rates.

Office Market Turning Point
While the office market throughout 2007 could have been considered the most active, the first half of 2008 has evidenced a very strong cooling of transactions, with there being little to note in the months till June. The few transactions recorded for 2008 have demonstrated a marked softening of capitalisation rates on office properties, in some cases by as much as 125 to 150 basis points.

Flat Turnover to Upset Retail Investments
With the Reserve Bank of Australia desperately trying to cool spendthrift habits, retail turnover has been significantly depressed for the year thus far. Retail turnover was recorded as falling in seasonally adjusted terms for the month ending April 2008, however was seen to recover slightly in May. Steep drops in consumer and business confidence are similarly foreboding of softened fundamentals for the retail property sector, and it is expected that those assets with high levels of exposure to discretionary spending will suffer quite dramatically in the short- to medium-term.

Industrial Continuing to Cool
With import and export activity slated to moderate with slowing activity in the global economy, the flexible nature of supply for industrial assets is expected to see little stock added until economic conditions pick up again. While existing assets should not suffer significant detriment, rental growth and any capital growth is likely to be heavily constrained, with risk premiums rising in line with the rest of the real estate markets.

Rental Growth Unlikely to Hold Back Capital Correction



Source: Adviser Edge

Although high rental growth has been cited in the media and by many fund managers as sufficiently offsetting the effects of such softening, it is believed highly unlikely that this mitigating relationship is strong enough to offset any property declines. Taking a moderate expansion of capitalisation rates from 6% to 7%, rental growth of 16% would be required to hold capital values stable. Such rental growth is very unlikely to be achieved given likely softening of tenancy demand going forward.

Key Risks to Forecasts and Viewpoints

It is noted that circumstances and events which occur in contradiction to the economic assumptions made in this report will alter the foundations of the forecasts and viewpoints presented herein. We believe outcomes for domestic product growth, inflation, and the Reserve Banks ongoing monetary policy stance to be significant risk factors linked to our forecasts. Other key sensitivities include the level of international trade and overall global economic conditions, oil prices, and commodity demand from Asia going forward. Unexpected changes in any of these variables may lead to outcomes substantially different than those presented.

Market Positions					
Revised Major Positions	Overall	Sydney	Melbourne	Brisbane	
Office	Neutral	Neutral	Neutral	Underweight	
Industrial	Neutral	Neutral	Underweight	Neutral	
Retail	Underweight	Neutral	Underweight	Underweight	
All Commercial	**Neutral**	**Neutral**	**Underweight**	**Neutral**	
Residential	**Underweight**	**Underweight**	**Underweight**	**Underweight**	
Revised Minor Positions	Perth	Adelaide	Canberra	Darwin	Hobart
Office	Underweight	Neutral	Underweight	Underweight	Neutral
Industrial	Neutral	Neutral	Neutral	Neutral	Neutral
Retail	Underweight	Overweight	Overweight	Neutral	Neutral
All Commercial	**Underweight**	**Neutral**	**Overweight**	**Neutral**	**Neutral**
Residential	**Underweight**	**Underweight**	**Neutral**	**Underweight**	**Neutral**

Key Economic Assumptions Behind Forecasts					
Real GDP (YoY % Change)	2005	2006	2007	2008 (f)	2009 (f)
World	4.4	5.0	4.9	2.0	1.0
Australia	2.9	2.7	4.3	2.5	1.5
US	3.1	2.9	2.2	0.5	-0.5
China	10.4	11.1	11.4	8.0	6.0
CPI (YoY % Change)					
Australia – Headline	2.8	3.3	3.0	3.8	3.0
World (Average)	3.7	3.6	3.9	4.7	3.6
US	3.4	2.6	4.1	4.0	3.0
China	1.4	2.0	6.6	15.0	8.0
Australia (See Footnotes)					
Australian Cash Rate[1]	5.5	5.8	6.4	7.2	7.1
10-year CGS Bond Yield[1]	5.3	5.6	6.0	6.3	6.4
Index-Linked CGS Bond Yield[1]	2.6	2.3	2.5	2.6	2.7
Unemployment Rate[2]	5.1	4.6	4.3	4.6	5.2
Employment Growth[3]	2.1	3.0	2.5	1.3	1.2
Retail Trade (nominal)[3]	3.1	6.0	7.3	4.0	2.0
Housing Finance[3]	18.1	12.3	10.0	-15.0	2.0
Non Residential Building Approvals[3]	10.6	6.2	1.3	-15.0	1.5
Non Residential Construction[3]	8.1	10.9	7.0	5.0	2.0
Commodity Prices[4]	33.6	10.8	-1.9	8.0	-3.0

Source: Adviser Edge, IMF, RBA (F02 G01 G05), ABS (8501 6202 8731 5609 8752) [1] Calendar Year Average [2] Seasonally Adjusted [3] Year-on-Year Seasonally Adjusted [4] RBA Index, Aus$, Year-on-Year

First Quarter CPI Well Above Expectations

One of the biggest shocks to the economy early this year, and to the Reserve Bank of Australia, came with the release of first quarter inflation figures. March 2008 recorded a CPI percentage change jumping from 3% as of December 2007 up to 4.2%, a height not seen since the transitory GST driven spike during the 2001 financial year. Following a period of mild tradables disinflation, calendar year consumer price index results for close trading partners China and the US attributed to a pronounced rise in tradable goods prices. Coupled with surging domestic inflation of non-tradable goods, the recent March result exceeded both the Reserve Bank, and our own, expectations for the year.

In this manner we have revised our inflation estimates upwards, with relief from consumer price growth only moderate over 2008 and 2009. These forecasts currently assume wage growth largely kept under wraps over the medium-term, however evidence of a break out would see further upward pressure placed on inflation.

Monetary Policy Going Forward

It was to this backdrop of a higher rate of inflation, seemingly inexorable demand growth, and dwindling spare capacity, that the Reserve Bank of Australia tightened its monetary policy stance through February and March of 2008, bringing the cash rate 50 basis points higher to 7.25% as at June 2008. This was an aggressive move of greater magnitude than what we previously forecasted. To this end it is clear Glenn Stephen has decided that fighting inflation should be first and foremost on the Reserve Banks agenda, even if it means slower or negative growth to the greater economy.

Given the recent softening of many monitored variables, such as retail trade, and within business surveys collected by the ABS, NAB, and Sensis, it is likely that the Reserve Bank will continue to hold the cash rate steady for the remainder of the year.

Fiscal Policy Moderation

The Rudd-Labor Federal Budget for financial year 2009 touted an uncharacteristic conservatism, with the overarching goal of reducing inflationary pressure on our economy. Wayne Swan's "inflation fighting budget" aims for a strong surplus of 1.8% of Gross Domestic Product. The reality is however that spending, despite statements made to the contrary, has continued to grow, albeit at a moderated 1.1% over last year's budget.

Expected Slow-down

It has appeared as though the Reserve Banks continued tightening is finally quelling spend-thrift habits. In the year thus far, there has been a notable degradation on the labour force front, with unemployment rising to 4.3% and employed persons falling back 0.2% in the May. All things considered, the outlook for Australia appears to have crystallised to some extent over the first half of 2008. With a strong slowdown in consumer demand being evidenced, coupled with the ongoing cooling of approvals and construction activity, our overall forecast has been revised in light of this temperance. While a slowing economy will have the effect of dampening direct property fundamentals, we believe it may also expose underlying issues in both the unlisted and listed property trusts markets.

Global Spiralling Inflation or Tail Spinning Deflation?

Ultimately this is the question of the day for central bankers, economists and forecasters. The ramifications on the global economic stage and the real estate markets are huge with inflation potentially lifting real estate values (in nominal terms) and deflation threatening to crush them.

Currently, there are indicators suggesting both may be at play. While hard and soft commodity prices are setting new highs, there has been a collapse of credit, residential real estate and equity markets. Increasingly attention is now turning to wage growth as a signifier of flow-on inflation, and as a leading indicator of early onset recession.

It is no secret the world has been running at the highest debt to Gross Domestic Product levels ever recorded, indicating that asset markets have been pushed along by the easy availability of credit. If this supply of credit is radically cut then asset prices would have lost their key supporting mechanism. While supply may seem tight in the commercial markets, this will not be the saving grace of asset prices if there follows a collapse in the demand side. We must remember that in the Manhattan market place, there hasn't been a boom of supply for some years now, yet vacancy rates are reported to be at their highest in two years.

In all this, the fortunes of the domestic property market are very much tied to the fortunes of the wider economy as they have always been over the long-term. In this environment, micro-economic factors such as location take a back seat as the larger forces of macro demand determine capital values. While owning a blue-chip Premium grade building may satisfy an abstract hurdle of exclusivity due to its price tag, having it half vacant due to downsizing of the finance and business sector will still cause its value to fall dramatically, as was the case in the early 1990s.

Due to recent events on both the global and domestic economic stage, our economic outlook as a whole has deteriorated. The precarious balance between keeping inflation at bay domestically, and tip-toeing around a likely deep recession in the United States, means that the forthcoming actions of the Reserve Bank will have a much greater influence on the domestic property market than usual microeconomic factors.

Residential	Periods Ending December 2007 (Compounded)					Forecast Data	
House Prices	1-Year	2-Year	3-Year	5-Year	10-Year	2008 CY	2009 CY
Sydney	4.8%	2.8%	0.5%	2.7%	7.8%	-2%	-10%
Melbourne	19.4%	11.7%	9.2%	8.2%	10.7%	-3%	-15%
Brisbane	21.6%	13.6%	10.1%	15.0%	12.3%	-2%	-12%
National Avg	11.3%	11.9%	9.9%	9.7%	10.5%	-2%	-15%
Unit Prices	1-Year	2-Year	3-Year	5-Year	10-Year	2008 CY	2009 CY
Sydney	2.4%	1.4%	-0.3%	1.4%	5.9%	-2%	-12%
Melbourne	14.5%	10.9%	7.9%	6.3%	10.0%	1%	-15%
Brisbane	14.4%	14.0%	11.1%	14.2%	8.9%	-4%	-15%
National Avg	8.6%	10.7%	8.9%	8.6%	8.9%	-2%	-14%

Source: Adviser Edge, APM

Despite a strong forecast for Sydney and Melbourne to December 2007 in our last Sector Review, moderation in the residential market has already been evidenced, with one year median price growth being recorded at only 4.8% for Sydney. The lag of cash rate rises in 2006 and 2007 has likely been the main cause of this moderation. Going forward we expect residential prices to suffer further as the, once abundant, supply of housing credit continues to contract and the price of which becomes intolerable to home buyers and investors.

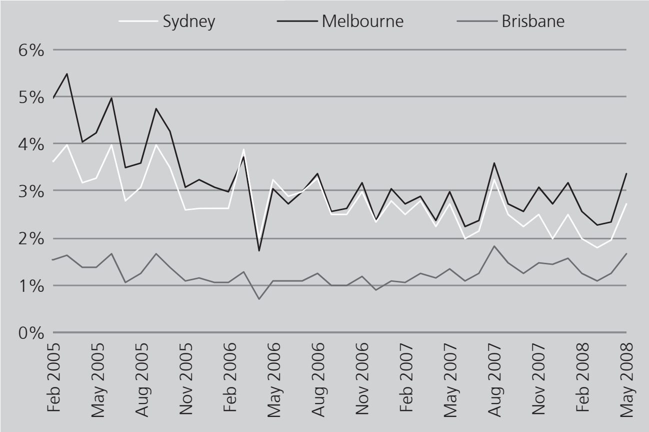
Broader implications of recent accelerations in household – as well as total-debt as a proportion of Gross Domestic Product, and an increasing mortgage repayment to income ratio have resulted in a sharp decline of the issuance of housing finance. These changes in the national economic environment, and the changes in the circumstances of both owner-occupiers and investors, are unlikely to bode well for price transactions on average.

The reporting of increased default rates, especially in outer-ring areas, has flooded specific markets with repossessions. While geographically contained thus far, it is expected that the incidence of such defaults will increase over time, with their geographic scope broadening. It is expected that due to a lag in sellers adjusting their expectations to new market conditions that median prices will remain relatively flat over 2008, with 2009 likely to record the full impact of a changing credit and economic circumstances of house buyers.

Given the considerable, and believed warrantable, concern of rapid credit market deterioration in Australia, our position for residential has changed to underweight overall. The loss of price support which would follow further tightening of finance provision, coupled with softening rental demand, and strong incoming supply for certain markets, form the substratum of changing market fundamentals this position is based upon.

Softening Rental Market a Further Concern

East Coast Capital Vacancy Rates



Source: SQM Research www.sqmresearch.com.au

While many industry bodies have touted exceptionally tight vacancy rates for the major residential markets, with the Real Estate Institute of Australia publishing figures of just 0.9% for Sydney at May 2008, there appears to be quite a divergence with these statistics and real-time listing evidence of rental properties available versus total stock. SQM Research reports vacancy rates as having increased sharply since March 2008, with Sydney and Melbourne reaching far looser figures of 2.8% and 3.4% respectively. Brisbane's historically tight market suffered only moderate loosening by comparison, rising from a March trough of 1.1% to 1.7% in May of 2008.

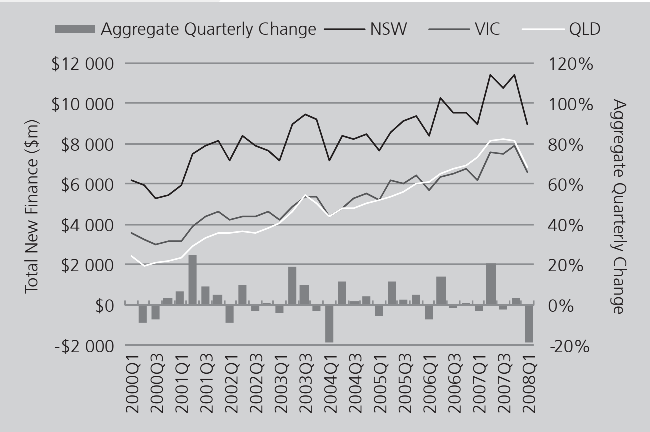
Growing mortgage pressure has not only affected owner occupiers, but also property investors, with rents being ratcheted up significantly over the past 12 months to cover increased debt costs. Demand now seems to be slowing, with renter's ability to absorb such steep rises in the cost of living suffering significant impairment. These recent movements in vacancy rates provide further evidence of the pronounced effect tightening of the credit market is really having on residential property.

Recent price growth has undoubtedly been supported strongly by an exceptionally high availability of credit, however with the intentional tightening of this market, and the ingrained potential for an all out collapse of credit availability in Australia, it is believed that such price growth will not be continued through to year end 2008. Asset prices are instead forecasted to suffer significant correction without the flamboyant financial backing once provided across all levels of the market.

Overall, we believe any revival of the Sydney market, and continued booming of Melbourne and Brisbane, is to be reliant on credit outcomes domestically. Given the considerable, and mounting, evidence of crises in our own financial market – with credit outstripping annual Gross Domestic Product by a quickly growing margin, and housing related mortgage stress rising – our position on domestic residential is underweight. To this end we expect the market to face considerable hardship throughout the latter part of 2008 and 2009.

Precarious Credit Balance

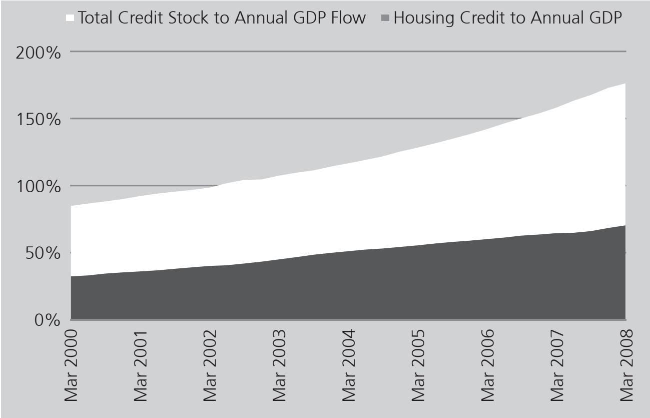
House Finance



Source: ABS (5609)

Recent actions by the Reserve Bank of Australia to tighten the finance market and cool the rampant credit driven growth of general consumption, as well as asset price, finally appear to have broken through to the housing market. Housing finance in the first quarter of 2008 tumbled drastically, retracting almost 20% from a December 2007 high. New South Wales evidenced the greatest slowing in the issuance of housing finance, with drops in Queensland and Victoria moderate by comparison but certainly notable nonetheless.

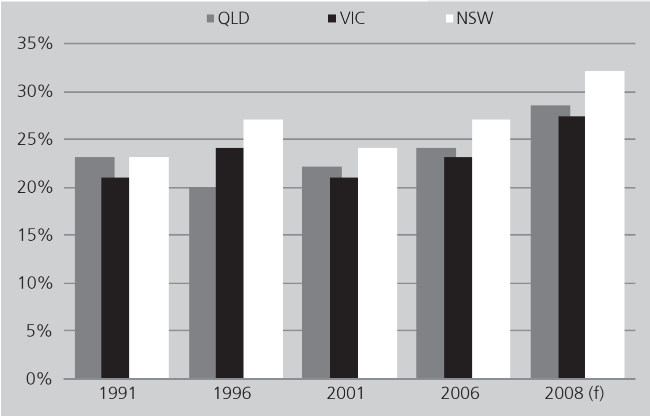
Household Debt to GDP



Source: RBA (D02 G10)

The broader story of credit in Australia is much more concerning, with total debt to annual Gross Domestic Product accelerating to an astounding 177%. While many analysts and commentators have tried to separate our credit condition from the global crises, it appears almost irrefutable that a similar epidemic as has spread through Europe will be caught here.

Mortgage Repayments to Pre-Tax Income

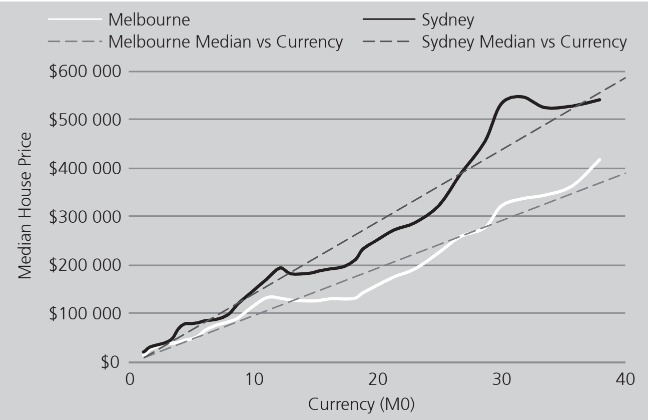


Source: SQM Research, ABS Census Data

Measures of mortgage stress have been lurking even in 2006, with the most recent census data displaying average mortgage repayments to pre-tax family income as having risen substantially, especially in New South Wales, from prior 2001 conditions. Given the subsequent lifts in the cash rate, and further pressure of discretionary lifts by major lenders in their fixed and variable rates for home loans, it can only be the case that such statistics have deteriorated further into late 2007 and early 2008. It is of course no secret that defaults have risen dramatically in low to middle socio-economic regions, but we expect this to be only the very tip of a dangerous iceberg for median prices.

House Price Drivers

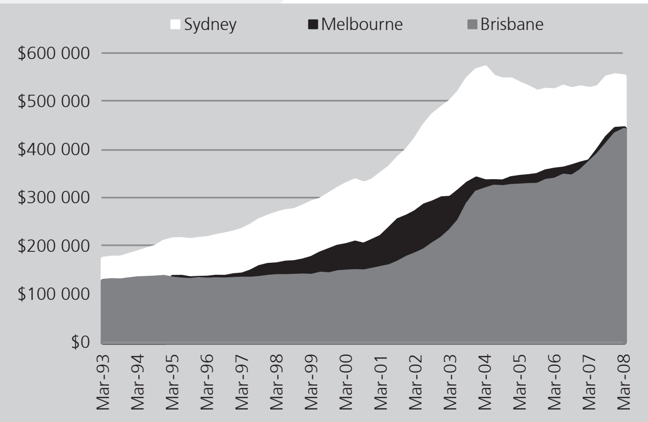
Median House Prices vs Mo (Currency) Supply



Source: SQM, RBA D03

Being the narrowest reported money aggregate, M0 is arguably the most responsive to cash rate setting by the Reserve Bank of Australia. With interest rates rising, signs of moderation in the growth of money supply have already been evidenced. Given the strong relationship between median house prices and M0, such movements in the underlying currency of the economy appear likely to have the strongest implications for Victoria, where house prices have accelerated ahead of their long term relationship with M0.

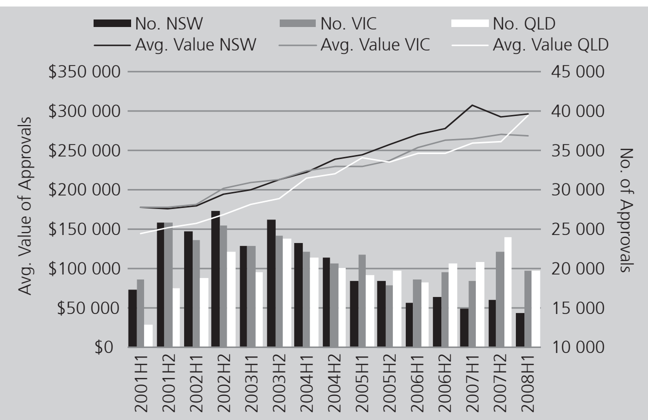
Median House Prices



Source: APM

While Sydney median house prices remain substantially above those in both Melbourne and Brisbane, the price gap is seen to have narrowed through recent periods. Melbourne and Brisbane both exhibited quite stellar growth through 2007 while Sydney remained relatively flat by comparison, despite constrained supply.

Building Approvals



Source: ABS (8731)

With preliminary New South Wales residential building approvals continuing their depressed trend it appears as though supply will remain constricted throughout the near term. Although there can be seen a marked uplift in average approval value within Queensland, this incoming supply, despite being of higher price, will not necessarily translate to any support of median prices going forward if demand simply does not exist for these properties.

Office Sector	Periods Ending June 2008 (Compounded)				Forecast Data		
Rental Growth	1 Year[1]	3-Year	5-Year	10-Year	2008 CY	2009 CY	Dec 08 HY
NSW	6.0%	6.4%	3.7%	4.8%	12.0%	3.1%	12.3%
VIC	10.0%	3.8%	3.9%	5.4%	11.1%	5.5%	0.7%
QLD	16.4%	16.8%	11.5%	6.9%	7.9%	2.4%	2.1%
Composite	10.7%	9.0%	6.3%	5.7%	10.3%	3.4%	5.6%
Capital Value Growth	1-Year[1]	3-Year	5-Year	10-Year	2008 CY	2009 CY	Dec 08 HY
NSW	13.5%	8.3%	7.6%	7.2%	9.6%	-13.9%	6.4%
VIC	10.0%	10.0%	10.0%	9.2%	5.5%	-15.6%	-4.3%
QLD	14.4%	19.1%	15.4%	10.1%	5.5%	-12.8%	1.6%
Composite	12.9%	12.0%	10.5%	8.6%	7.1%	-14.0%	1.9%
Yield[2]	1-Year[1]	3-Year	5-Year	10-Year	2008 CY	2009 CY	
NSW	7.0%	7.3%	7.4%	7.4%	7.2%	7.7%	
VIC	5.6%	6.3%	6.6%	6.8%	5.9%	6.7%	
QLD	6.3%	6.8%	6.9%	7.0%	6.4%	7.0%	
Composite	6.3%	6.8%	6.9%	7.0%	6.5%	7.1%	
Total Return	1-Year[1]	3 Year	5 Year	10 Year	2008 CY	2009 CY	
NSW	21.3%	16.0%	15.2%	15.5%	16.8%	-6.2%	
VIC	16.1%	16.6%	17.1%	17.0%	11.4%	-9.0%	
QLD	21.1%	26.1%	23.2%	18.9%	11.9%	-5.8%	
Composite	19.5%	19.6%	18.5%	17.3%	13.7%	-6.9%	

Source: Adviser Edge adjusted CPM Research Data
Based on quarterly $/sqm sales and leasing transactions [1] Includes preliminary 2008 data to June [2] Year average (non-compounding)

Office Market in Limbo

The domestic east-coast office sector was presented quite favourably in the January Property Review, with strong tenant demand fundamentals viewed as the driver of potential out performance. Constrained supply, especially in New South Wales, coupled with this demand has lead to a preliminary realisation of this out performance through to June 2008.

With little change in supply additions expected over 2008-2009, it has been the lowering of demand prospects which has lead to some moderation of our forecasts going forward. A weakened economy, with employment having fallen in May, is expected to hurt the lower end of the market substantially, with outer-CBD capitalisation rates expected to soften by 50 to 125 basis points in the near term.

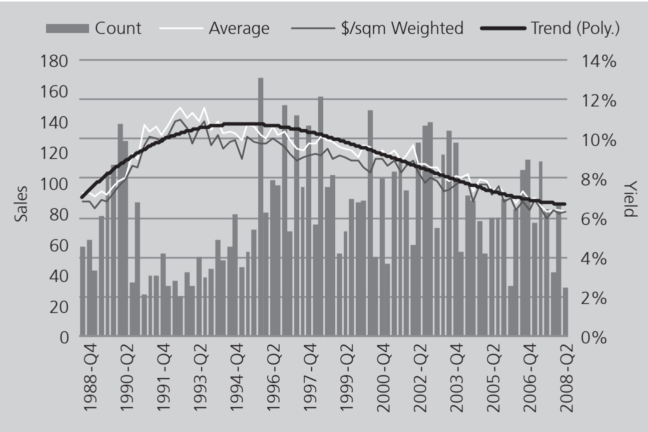
While top-end premium stock is expected to hold ground, those assets most recently purchased or valued on bullish rates nearing 5% during mid- to late-2007 are likely to suffer significant corrections during forthcoming revaluations through December 2008 and June 2009.

Preliminary data for the March and June 2008 quarters is quite thin due to a notable drop off in activity, with both buyers and sellers viewing the market with apprehension. This in itself is an indicator which marks what is likely to be a turning point in capitalisation rates. Asset revaluation results however for the year thus far have continued to strengthen, with listed and unlisted property trusts, for the most part, still reporting capitalisation rate compression despite what transactional evidence has shown. With high rental growth forecast to persist throughout the remainder of 2008 strong total returns are expected through to the end of the year, with a correction not likely to be recorded until 2009.

Similar to the January Market Report, it is believed that the domestic office market may still provide strong returns going forward for those who use a selective approach to picking quality assets with an eye to strong, longer term leases with short term market reversion. Caution is given with respect to lower end suburban assets, which are likely to suffer from decreased demand in the subdued economic environment ahead. Our overall position for the office market has shifted from overweight to neutral.

A Case for Yield Softening

National Office Yields



Source: Adviser Edge, CPM Research Data

Although sales data for 2008 has been relatively thin for the year thus far, the evidence does strongly point to a bottom having been reached in the yield compression cycle. With average sales yields falling to as low as 6%, across states and grades, they've now stabilised and early signs of slight expansion can be seen. On average a softening of between 25 and 50 basis points has appeared in the aggregated data of completed sales, with passed-in and yet-to-be-sold properties providing preliminary evidence of softening of up to 100 basis points.

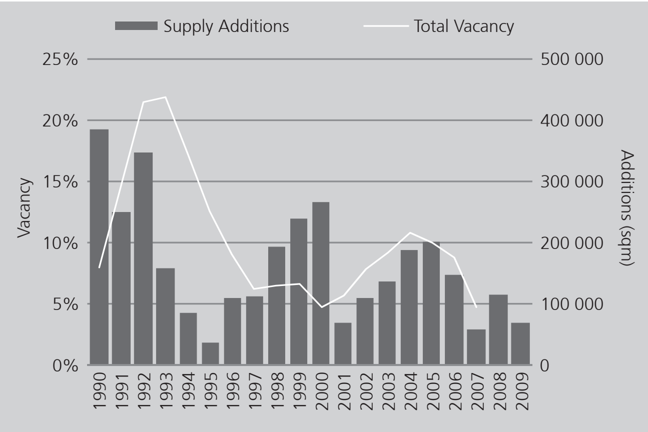
Selected Transactions

Building	Suburb	State	Transaction	Date	Price	Yield	Sqm
3 Sherwood Rd	Toowong	QLD	Passed In	Jun-08	$6m	7.9%	754
616-620 Harris St	Ultimo	NSW	Passed In	May-08	$7m	9.1%	1,910
388 Queen St	Brisbane	QLD	Sold	May-08	$44m	7.0%	6,361
256-264 Queen St	Brisbane	QLD	Sold	May-08	$85m	6.2%	12,892
370 Docklands Dr	West Melbourne	VIC	For Sale	May-08	$48m	6.0%	7,100
414 Latrobe St	Melbourne	VIC	Sold	May-08	$67m	6.5%	14,299
431-435 Hunter St	Newcastle	NSW	Sold	May-08	$6m	9.0%	2,177
34-36 Elizabeth St	Melbourne	VIC	Sold	Apr-08	$19m	5.0%	3,700
541 Kent St	Sydney	NSW	Sold	Apr-08	$13m	6.9%	0
140 Burwood Hwy	Burwood	VIC	Sold	Apr-08	$6m	8.1%	2,145
89-93 Commercial Rd	Teneriffe	QLD	Sold	Apr-08	$8m	7.0%	1,385
109 Reserve Rd	Artarmon	NSW	Sold	Apr-08	$6m	8.2%	2,290
505 Little Collins St	Melbourne	VIC	Sold	Apr-08	$83m	6.0%	0
100 Edward St	Brisbane	QLD	Sold	Apr-08	$53m	6.1%	7,166
7 Baroona Rd Cnr Milton Rd	Milton	QLD	Sold	Apr-08	$7m	5.7%	1,864
10 Phillip St	Parramatta	NSW	Sold	Apr-08	$5m	8.9%	1,740
204-214 Macquarie St	Dubbo	NSW	For Sale	Mar-08	$8m	5.9%	1,342
16 Metroplex Av	Murarrie	QLD	Sold	Mar-08	$6m	6.7%	1,895
310 Vulture St	Woolloongabba	QLD	Sold	Mar-08	$12m	6.5%	3,466
408-418 La Trobe St	Melbourne	VIC	Sold	Mar-08	$73m	6.1%	14,299
Upton St	Bundall	QLD	Sold	Feb-08	$34m	6.1%	7,170
2-50 Glenelg St	Coolaroo	VIC	Sold	Feb-08	$11m	7.1%	16,120
82 Eagle St	Brisbane	QLD	Sold	Feb-08	$38m	5.0%	4,686
110 Brisbane Rd	Labrador	QLD	Sold	Feb-08	$7m	7.3%	1,438
27 Scarborough St	Southport	QLD	Sold	Feb-08	$11m	7.7%	1,770
78 Brisbane St	Ipswich	QLD	Sold	Jan-08	$8m	7.6%	3,231
Holden Pl	Bundall	QLD	Sold	Jan-08	$34m	6.1%	7,170

Source: CPM Research Data

CBD Commentary

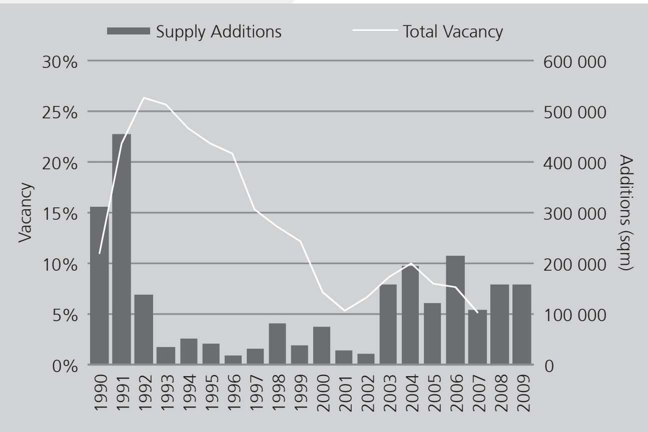
Sydney CBD Vacancy and Supply



Source: Adviser Edge, Property Council of Australia

Sydney continues to display tightening vacancies, falling from 5.6% to 3.7% in the half year ending January 2008, with constrained supply expected to have little adverse effect on the market. Strong demand continues to drive rent increases throughout the market, however a turning economic environment will see this moderate and our preference from short-term leases shift to long term stability with reviews set to the higher of a fixed rate or CPI looking to provide the best income protection.

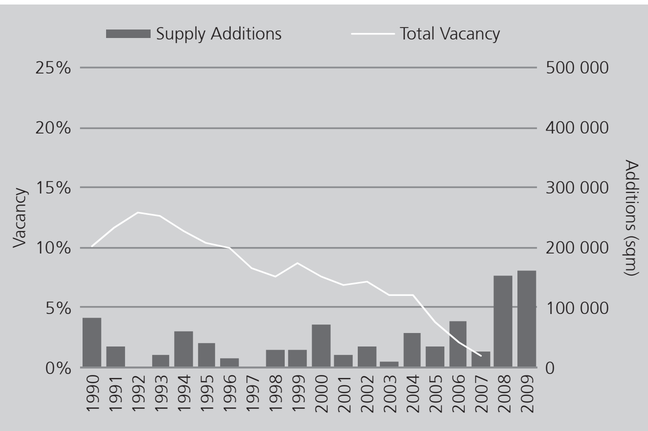
Melbourne CBD Vacancy and Supply



Source: Adviser Edge, Property Council of Australia

Having experienced elevated strength in office space supply through 2003 to current, Melbourne's CBD has nevertheless recorded continually falling vacancy rates, reaching 4.4% in January 2008. Although some of the lowest yield office transactions have been evidenced in Melbourne during the last 12 months the buildings have been largely under rented, with the potential for market reversion being the driver of these mid to low 5% yields, rather than improving fundamentals. The strong demand of the past years is expected to slow sharply coming into 2009, with absorption of new supply likely to fall below initial expectations.

Brisbane CBD Vacancy and Supply



Source: Adviser Edge, Property Council of Australia

Recorded as of January 2008 Brisbane CBDs vacancy rates fell to a historical and nationwide low of just 0.7%. Total stock is to be increased by almost 18% through 2008 and 2009, with pre-commitments for new construction being measured by the Property Council of Australia at approximately 37% over the two years. Such an aggressive expansion is on the back of a booming Queensland economy, however, it appears as though the influx of supply has perhaps been ill-timed on the broader domestic and international stage.

While we have moved from overweight to neutral on the office sector as a whole, it is expected that Sydney and Melbourne will out perform to a greater extent than Brisbane.

Retail Sector	Periods Ending June 2008 (Compounded)				Forecast Data		
Rental Growth	1-Year[1]	3-Year	5-Year	10-Year	2008 CY	2009 CY	Dec 08 HY
NSW	-0.5%	-4.2%	-1.5%	3.3%	-3.3%	0.0%	-3.0%
VIC	7.9%	4.6%	5.3%	3.2%	3.0%	1.0%	-6.6%
QLD	10.0%	4.7%	4.9%	4.7%	4.3%	2.0%	-5.4%
Composite	5.6%	1.3%	2.6%	3.8%	1.1%	1.0%	-5.0%
Capital Value Growth	1-Year[1]	3-Year	5-Year	10-Year	2008 CY	2009 CY	Dec 08 HY
NSW	-0.5%	1.9%	2.4%	6.6%	-4.8%	-3.4%	-4.6%
VIC	20.7%	13.1%	16.4%	11.8%	-0.9%	-13.3%	-9.7%
QLD	21.6%	13.4%	14.7%	7.7%	5.6%	-4.7%	-4.2%
Composite	13.1%	9.0%	10.2%	8.7%	-0.4%	-7.5%	-6.4%
Yield[2]	1-Year[1]	3-Year	5-Year	10-Year	2008 CY	2009 CY	
NSW	6.5%	6.6%	6.6%	6.6%	6.6%	7.1%	
VIC	5.3%	5.3%	5.4%	5.4%	5.5%	6.2%	
QLD	6.7%	7.0%	7.1%	7.2%	6.6%	6.8%	
Composite	6.2%	6.3%	6.4%	6.4%	6.2%	6.7%	
Total Return	1-Year[1]	3 Year	5 Year	10 Year	2008 CY	2009 CY	
NSW	6.1%	8.4%	9.1%	14.2%	1.8%	3.7%	
VIC	25.6%	18.5%	22.1%	18.6%	4.6%	-7.1%	
QLD	28.6%	20.7%	22.5%	16.7%	12.2%	2.1%	
Composite	20.1%	16.0%	18.0%	16.7%	5.8%	-0.8%	

Source: Adviser Edge adjusted CPM Research Data
Based on quarterly $/sqm rental and capital value figures [1] Includes preliminary 2008 data to June [2] Average (non-compounding)

Retail Market May Face Turbulence

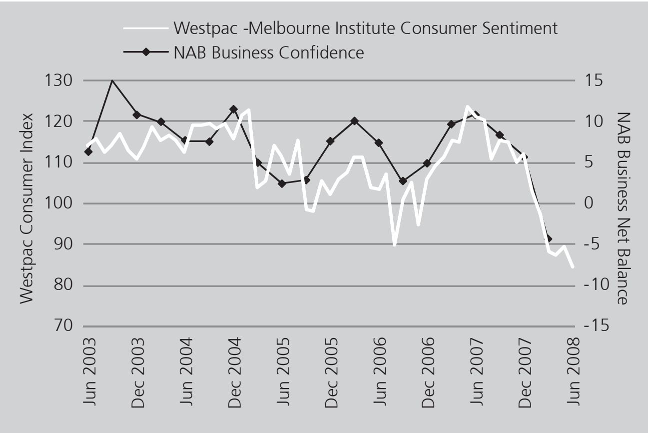
Since the January National Property Review there have been a series of significant changes in market conditions expected to affect the domestic retail sector with strong negative repercussions. Despite tightening of monetary policy by the Reserve Bank of Australia and strong forewarnings of inflationary pressure in mid- to late-2007, consumers appeared unhindered, with retail turnover growing rapidly through to the end of the year.

It took surprise inflation figures above 4% and a back-to-back 50 bps rise in the cash rate early this year to quell this growth, with the most recent monthly figures recording negative changes on a seasonally adjusted basis. With petrol prices continuing to spiral upwards and mortgage pressure being placed on many families it is expected that the strong fundamentals of retail in 2007 will suffer reversion through the remainder of 2008 and become especially evident in 2009.

Due to recent events Adviser Edge has revised its retail forecasts downward for the remainder of 2008 and through to 2009. It is anticipated that those assets exposed heavily to discretionary spending will suffer, with struggling tenancies vacated and purchase demand retracting strongly. However, suburban centres tenanted by staple retailers offering non-discretionary items are predicted to out perform. Capitalisation rate contraction may still be achievable for such properties in the short term, but marked softening of those valued near or below tight 5% rates appears likely going forward and overall over a longer horizon.

Spending Slowdown Weakening Fundamentals

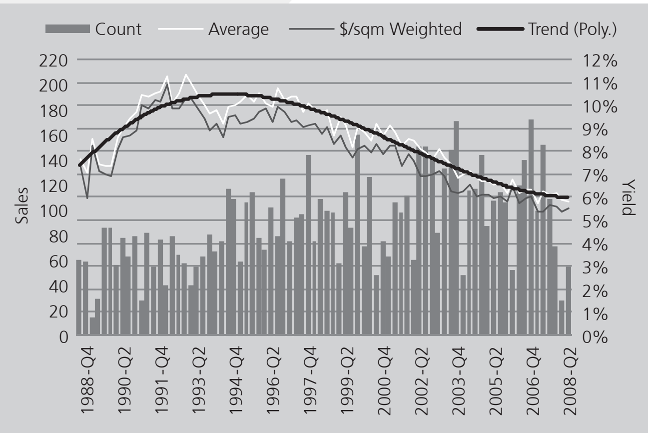
Consumer Confidence



Source: RBA (G08)

Despite faltering consumer and business confidence in late 2006 after the year's second cash rate hike, the lull was short lived, with the Reserve Bank of Australia's tightening actions falling to moderate spending and growth throughout the country. Both measures of sentiment returned to prior strengths, and the year end recorded GDP growth and inflation of 4.3% and 3% respectively. Subsequent tightening of monetary policy in 2008 was required to constrain this growth, having a pronounced effect on confidence through to June.

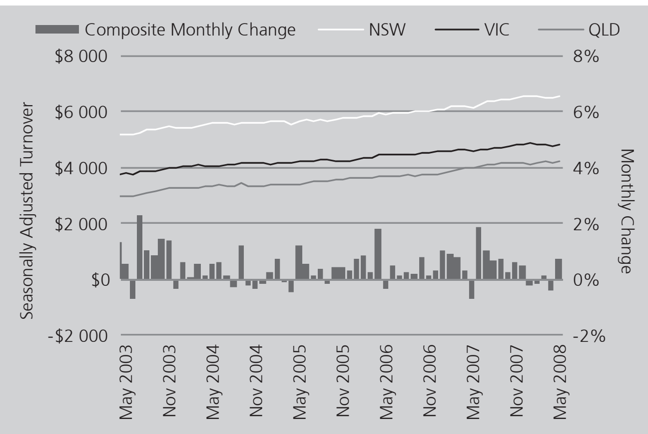
National Retail Yields



Source: Adviser Edge, CPM Data Research

It is expected that this recent crash in consumer and business confidence will take some time to filter through to forthcoming retail property transactions, however preliminary data suggests a notable flattening of capitalisation rates, ending an era of strong compression. Having had the lowest average yields of the three major sectors, retail assets may now face a potential negative reversion in the order of up to 100 basis points. Especially at risk is the Victorian market, with the elucidation of weakened consumption expected to strike hardest at those assets sold and valued on very tight capitalisation rates, with softening of the 4%–5% range by 150 basis points not out of the question.

State Retail Turnover



Source: ABS (8501)

Seasonally adjusted retail turnover figures have tracked closely to confidence measures, with the year to April 2008 a -0.9% change for Victoria, -0.7% for Queensland and a barely positive 0.1% for New South Wales. Coming from December 2007 highs, these figures may be the beginning of a particularly bleak period for spending, comparative to prior buoyant conditions. May results indicated a positive shift in spending, however, preliminary data released by the Westpac-Melbourne Institute records July consumer sentiment as continuing on its sharp downtrend.

Selected Transactions

Building	Suburb	State	Transaction	Date	Price	Yield	Sqm
61-79 Henry St	Penrith	NSW	Sold	Jun-08	$16m	7.80%	8,596
94-100 Coonan St	Indooroopilly	QLD	EOI	May-08	$20m	8.00%	4,464
63 Laidlaw St	Yass	NSW	Passed In	May-08	$6m	9.30%	–
2-12 Erskine St	Dubbo	NSW	Passed In	May-08	$5m	9.50%	2,226
150 Swanston St	Melbourne	VIC	Sold	May-08	$5m	5.00%	200
Lanyana Way	Noosa Heads	QLD	Sold	Apr-08	$42m	5.40%	7,900
83-93 Mollison St	Kyneton	VIC	Passed In	Apr-08	$14m	6.80%	–
12-18 Nolan St	Kerang	VIC	Passed In	Apr-08	$13m	6.60%	–
35 Dalgarno St	Coonabarabran	NSW	Sold	Apr-08	$7m	8.10%	2,943
130-138 Peel St	Tamworth	NSW	Passed In	Apr-08	$6m	8.90%	3,525
520 Mt Dandenong Rd	Kilsyth	VIC	Passed In	Apr-08	$5m	6.90%	2,183
80 The Corso	Manly	NSW	Passed In	Apr-08	$5m	4.90%	316
250 Pitt St	Sydney	NSW	Passed In	Apr-08	$5m	6.20%	–
917 Kingston Rd Cnr Tygum Rd	Waterford	QLD	Sold	Mar-08	$22m	5.70%	5,700
35 Fitzroy St	St Kilda	VIC	Sold	Mar-08	$18m	7.00%	–
53-55 Cronulla St	Cronulla	NSW	Passed In	Mar-08	$7m	5.50%	440
253-263 Lower Heidelberg Rd	Ivanhoe	VIC	Sold	Mar-08	$5m	4.80%	–
Lot 54 Industrial Dr	Mayfield West	NSW	Sold	Mar-08	$5m	7.10%	–
Arthur St	Rutherford	NSW	Passed In	Feb-08	$12m	7.30%	–
212-242 Mort St	Lithgow	NSW	Sold	Feb-08	$12m	6.30%	3,054
Oxford St Cnr Duke St	Bulimba	QLD	Sold	Feb-08	$12m	6.00%	2,125
9 Cressy St	Camperdown	VIC	Sold	Feb-08	$8m	6.80%	2,720
54 Old Bar Rd	Old Bar	NSW	Sold	Feb-08	$6m	6.60%	–
2484-2486 Gold Coast Hwy	Mermaid Beach	QLD	Sold	Feb-08	$5m	7.00%	750

Source: CPM Research Data

Industrial	Periods Ending June 2008 (Compounded)				Forecast Data		
Rental Growth	1-Year[1]	3-Year	5-Year	10-Year	2008 CY	2009 CY	Dec 08 HY
NSW	2.6%	3.5%	1.7%	2.8%	3.2%	2.2%	3.5%
VIC	2.2%	2.7%	2.8%	3.2%	3.1%	3.5%	0.7%
QLD	6.4%	9.8%	6.6%	4.2%	5.8%	4.5%	-4.0%
Composite	3.8%	5.3%	3.6%	3.4%	4.0%	3.3%	0.1%
Capital Value Growth	1-Year[1]	3-Year	5-Year	10-Year	2008 CY	2009 CY	Dec 08 HY
NSW	9.3%	4.2%	6.3%	7.0%	2.3%	-2.2%	-5.9%
VIC	10.0%	11.4%	10.9%	8.6%	-5.6%	-10.2%	-14.3%
QLD	10.0%	15.5%	13.9%	8.5%	3.4%	-2.9%	3.6%
Composite	9.7%	9.7%	9.9%	7.9%	0.5%	-4.6%	-5.2%
Yield[2]	1-Year[1]	3-Year	5-Year	10-Year	2008 CY	2009 CY	
NSW	7.8%	8.0%	8.0%	8.0%	7.9%	8.0%	
VIC	6.2%	6.8%	7.2%	7.4%	6.8%	7.6%	
QLD	7.0%	7.3%	7.4%	7.6%	7.1%	7.3%	
Composite	7.0%	7.4%	7.5%	7.7%	7.3%	7.6%	
Total Return	1-Year[1]	3 Year	5 Year	10 Year	2008 CY	2009 CY	
NSW	17.1%	12.2%	14.3%	15.0%	10.2%	5.8%	
VIC	16.2%	18.3%	18.1%	16.0%	1.2%	-2.6%	
QLD	16.9%	22.8%	21.3%	16.1%	10.5%	4.3%	
Composite	16.7%	17.1%	17.5%	15.6%	7.7%	3.0%	

Source: Adviser Edge adjusted CPM Research Data
Based on quarterly $/sqm rental and capital value figures [1] Includes preliminary 2008 data to June [2] Average (non-compounding)

Industrial Holding Steady

Having arguably the most flexible supply amongst the three major sectors, industrial has historically been the stalwart performer, with consistent returns and stable growth. With supply flexibility being so high, there is little lag between demand for space and construction. Due to this speculative construction is rarely undertaken, stock is added when tenant commitments and future rental inflows, with respect to building costs, are confirmed to be economic.

Divergence between performances of the major east-coast industrial regions has largely been determined by differences in infrastructure and demand for varying types of industrial space. Although recent periods of performance have been quite strong compared to the longer-term average, the strengthening of the Australian dollar and Asia's ongoing appetite for hard commodities is unlikely to shield the sector from the worsening global and domestic economic slowdowns. Dropping consumer sentiment is likely to further this downward pressure on the industrial properties, with import activity likely to similarly suffer.

Across all property sectors for late 2007 and early 2008 there have been clear signs of moderation, following a strong growth period in the 90s. Industrial yields are evidenced to have stopped their descent, bottoming near 7% on average. While definitive conclusions cannot be drawn to indicate a softening, it is expected that yields will ease in the order of 50 to 100 basis points. This easing will likely be subdued due to the industrials stalwart nature, having neither been bullish or bearishly transacted on in recent times to the excessive extent of office and retail.

Similar to the January Market Report, it is believed that the domestic industrial market will cool through the calendar year end 2008, however our revised position sees a tending towards stabilisation in 2009 rather than strong further slowing. As economic prospects both nationally and abroad solidify it is expected that capital values and rent will continue on a stable path, having been subject to neither large under- or over-valuations in recent periods. Our position remains neutral on the market, with the bias towards Melbourne being retracted.

State Commentary

New South Wales

Transactional data for New South Wales is heavily biased towards sales of factory units, having a relatively low average sales price, but higher yield, than other industrial properties. When analysing trend data of all recent sales and leasing transactions within New South Wales, a plateau of rental figures and a seeming peak in capital values is evidenced during the opening quarters of 2008. To the calendar year ending 2008 average yields are expected to remain relatively constant, however, less frequently transacted property types, such as distribution centres with high average sales prices are likely to suffer from yield softening of up to 100 basis points going forward.

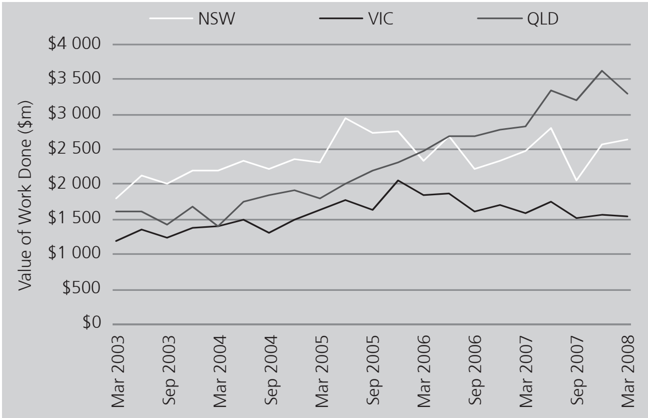
Victoria

Victoria's strong transport infrastructure and abundant supplies of land able to be zoned as industrial, it has established itself as the largest domestic industrial market. The market is characterised with a large bias towards relatively low value warehouse and factory properties, the staple of industry, as it was once known. Having the lowest capital value and rent figures of the three states, Victoria has displayed similar flattening trend characteristics to that of New South Wales. With easing of the global economy, and slowing import/export growth, it is forecast that Victoria will be the most heavily effected of the states.

Queensland

Relatively small and less mature than the both New South Wales and Victoria, Queensland is expected to continue to exhibit moderate growth through both 2008 and 2009. Total land stock available is just half that of its bigger brothers, and a booming Queensland state economy should continue to provide buoyancy to the market where others are uninspired. The strengths of the market however must be weighed against Queensland's straining infrastructure.

Infrastructure Work Done (Chain Volume)



Source: ABS (8762)

While we remain neutral on the sector as a whole, it is expected New South Wales and Victoria may be subject to greater market cooling than Queensland, which should benefit from differentiated assets and the concentration of transactions in the higher end. Further to this, increased expenditure on infrastructure works within Queensland suggests future easing of transport and capacity constraints currently being faced, with the potential for added buoyancy flowing from this.

Selected Transactions

Building	Suburb	State	Transaction	Date	Price	Yield	Sqm
806 Ingham Rd	Bohle	QLD	Sold	Jun-08	$12m	8.00%	13,162
435 Williamstown Rd	Port Melbourne	VIC	Sold	Jun-08	$6m	6.60%	1,604
390 Eastern Valley Way	Chatswood	NSW	Sold	May-08	$4m	8.20%	1,916
18-20 Babdoyle St	Loganholme	QLD	Passed In	May-08	$3m	9.20%	2,100
11 Nissen St	Hervey Bay	QLD	Sold	Mar-08	$6m	11.20%	4,847
57 Luke St	Hemmant	QLD	Sold	Mar-08	$5m	7.50%	2,984
2-4 Railway Av	Oakleigh	VIC	Sold	Mar-08	$3m	7.10%	2,789
160 Benjamin Pl	Lytton	QLD	Sold	Mar-08	$3m	11.40%	1,530
515 Olsen Av	Ashmore	QLD	Sold	Mar-08	$3m	4.30%	–
660 Macarthur Av	Pinkenba	QLD	Sold	Feb-08	$9m	6.50%	5,600
122 Buchanan Rd	Banyo	QLD	Sold	Feb-08	$7m	8.10%	4,426
29 Computer Rd	Yatala	QLD	Sold	Feb-08	$3m	7.60%	2,282
3327 Logan Rd	Slacks Creek	QLD	Sold	Jan-08	$3m	7.30%	572

Source: CPM Research Data

No Quick Revival in Sight for A-REIT Market

With strong concerns as to the forward looking volatility of the Australian listed Real Estate Investment Trust (A-REIT) market after the events of 2007, caution was given against the passive investment strategy of buying the market index. Suggestions of value were made during early 2008, with fund managers keen to capitalise on what they perceived to be "cheap" buying opportunities in the market. The market however had very different plans, with stock prices continuing to plummet through to June 2008, and still as yet, showing no sign of recovery.

Over a 10-year horizon property stocks have historically made for a relatively strong investment, when compared to the broader ASX 300 index. Re-based at June 1998, the ASX 300 A-REIT Accumulation Index is seen to have peaked in October 2007, at a then similar level to the broader ASX 300 Accumulation Index. However, since this time both indices have fallen dramatically, with theoretical $10,000 investments dropping from approximately $38,000, when averaged between the two indices at October 2007, to just $22,800 and $29,700 for the A-REIT and broader indices respectively.

Investor confidence has been rustled over time with volatility and general equity correlation characteristics of the A-REIT market having undergone significant changes. The weakening of listed property as a diversification tool has lead to divestment by many fund managers of balanced trusts and superannuation pools.

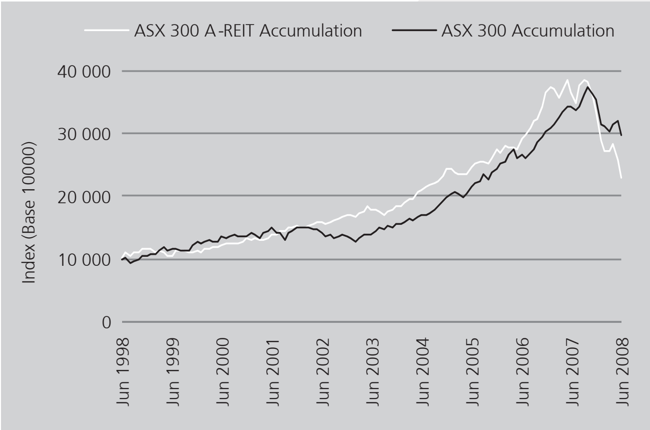
Further driving devaluation of the listed property market as a whole has been well publicised criticism of listed REIT managers using financial engineering to artificially inflate distributions. Rampant accounting earnings growth through 2006 and 2007, while the direct property market was enjoying strong buoyancy, saw many managers propping up cash distributions paid to shareholders. This was often done using the proceeds of re-geared portfolios or the over issuance of new equity. While little was said about this practice throughout the boom, in recent months ongoing index deterioration has lead to high profile fund managers publicly warning REITs guilty of this practice to cut their distributions to realised income alone.

Having fallen to discount price levels indicative of a 100 to 200 basis point softening in capitalisation rates, after adjusting for the effect of gearing, it now seems as though a certain balance has been struck between the ASX 300 A-REIT index and expected weakening of the direct property market going forward. While this is not to rule out continued short-term volatility it is suggestive of longer term stability and minimisation of ongoing downside risk.

Whereas it was once the case that investment into property related stocks allowed fund managers to achieve greater diversification in their overall asset portfolio, the evidence now suggests that such diversification benefits are no longer being recognised. Poor returns in relative and absolute terms, as well as high instability, and weakened attractiveness for diversification purposes continue to make the case for recovery and investment approval quite difficult within the industry.

Following the dramatic continuation of A-REIT price slides through to June 2008, there still exists substantial risk in short-term investment. This short-term risk is noted with particular regard to the coming June 30 reporting period where it is likely many A-REITs will fall short of investor and analyst expectations on current earnings and future outlook. However with discounts roughly indicative of future asset price parity, we are now neutral on the listed property market as a whole over the longer-term. The recommendation of conservatively geared, simplified trust structure stocks, paying out only quality realised earnings remains firm going forward.

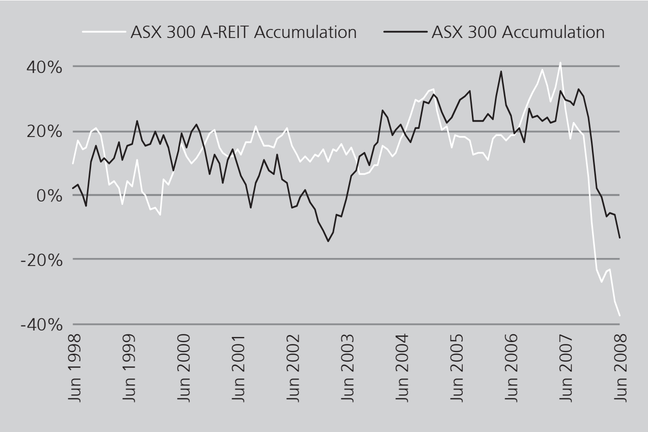
10-Year Index Growth



Source: Adviser Edge, Bloomberg

Property Losing Heavily to Broader Equities

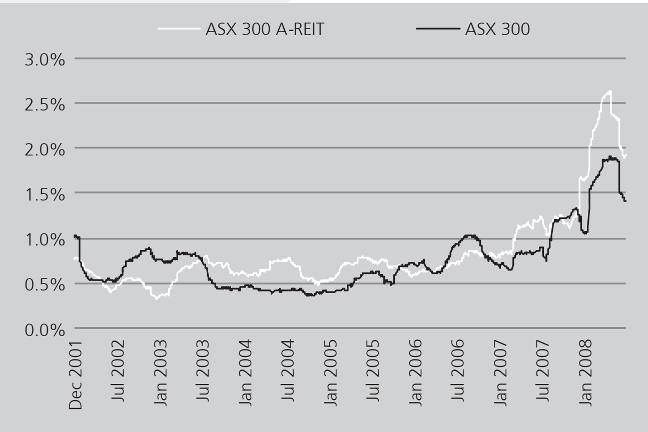
Rolling 1-Year Returns



Source: Adviser Edge, Bloomberg

After returning negative 8% for the year ending December 2007, the outlook for the A-REIT market looked subdued at best for the coming year. However a further 32% drop in the six months to June 2008 has firmly cemented initial instabilities as an undeniable crash of market confidence in these listed property trusts. The full year to June 2008 records a negative 38% return for ASX 300 A-REIT Accumulation index investors and passive property securities fund managers. Such devastation in returns has crowned listed property as the poorest performing domestic asset class, underperforming the broader ASX 300 Accumulation index by 24%, and standard high rate savings accounts provided by the major banks by an unprecedented 45%.

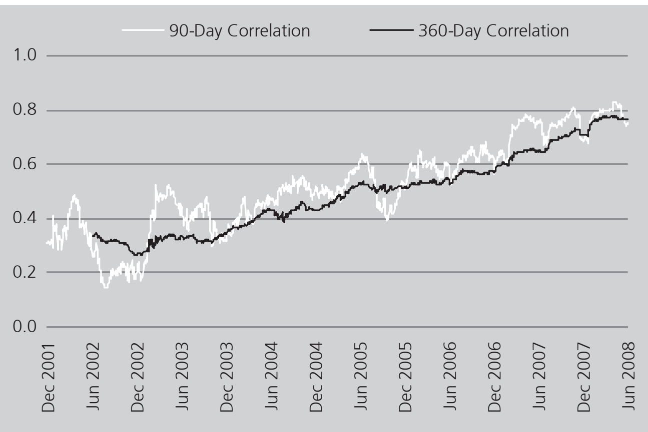
90-Day Rolling Volatility



Source: Adviser Edge, Bloomberg

90-day rolling volatility of the ASX 300 A-REIT index substantially increased over recent periods, after a low of 0.4% at the end of December 2002, to a peak of 2.4% in April 2008. Although slight moderation in this volatility can be seen to the end of June 2008, this primarily been the result of more consistent negative returns, rather than improving conditions in absolute terms. 90-day rolling volatility of the ASX 300 A-REIT index continues to substantially outstrip that of the broader ASX 300 index, although general equities have followed a similar trend towards increased instability.

ASX 300 A-REIT vs ASX 300 Correlation

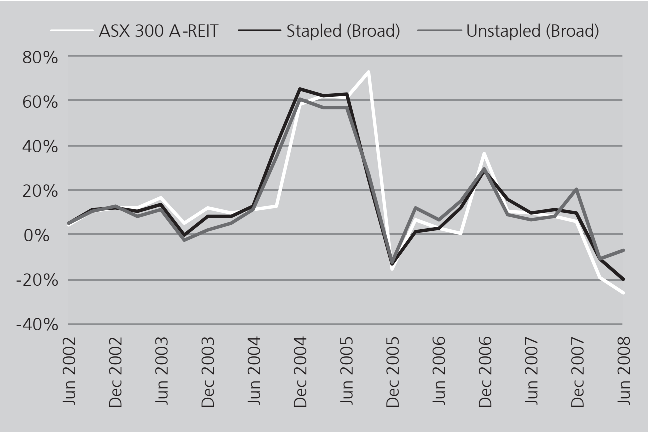


Source: Adviser Edge, Bloomberg

While once being recognised as a fundamentally distinct market from that of general equities, the correlation between returns of listed property and those of equities have increased strongly over time.

Dividend Cuts Further Driving Negative Market Sentiment

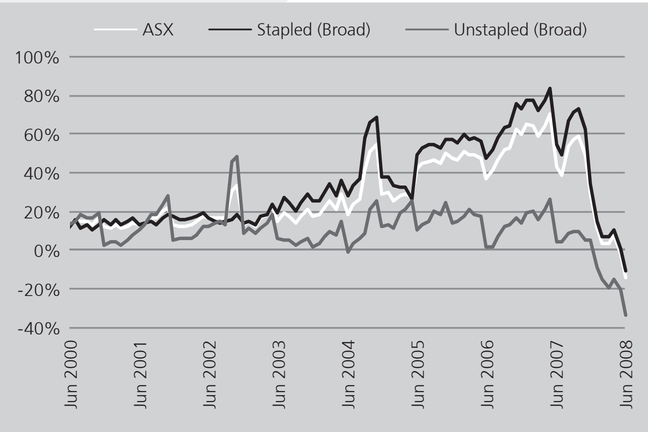
Rolling 12-Month Dividend Growth



Source: Adviser Edge, Bloomberg

After aggregating data for 12-month trailing distributions of listed property trusts within the wider market (including those outside of the ASX 300 A-REIT index) growth can be seen to have fallen heavily into the negative through recent quarters. The average trailing distribution of the ASX 300 A-REIT index was down 26% on its prior year results as at June 2008. Taking a broader sample of property related stocks saw stapled entities unsurprisingly having cut back distributions to a greater extent then their unstapled counterparts, generally regarded as having a closer relationship to more pure forms of property investment.

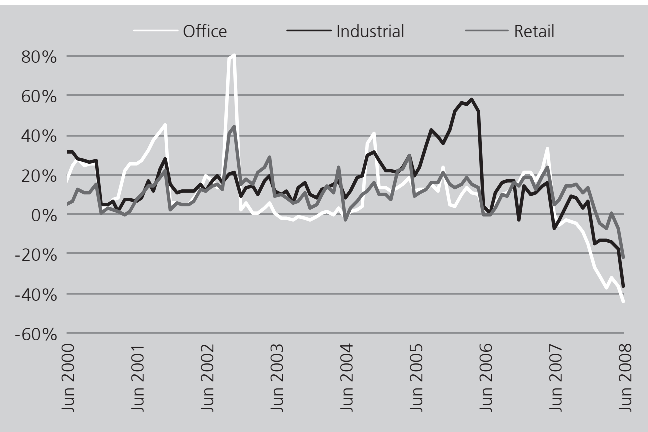
Weighted Market Discount to Net Tangible Assets



Source: Adviser Edge, Bloomberg

Having a pronounced negative effect on market confidence, these ongoing cuts to distributions have provided a significant driving force in the sell off of property related stocks, and the deterioration of the ASX 300 A-REIT index. As of June 2008 the index was approximately trading at a 14% weighted average discount to net tangible assets (reported as of December 2007). This figure is however is subject to significant skew from stapled listed entities within the index, whose enterprises outside of physical asset holding are priced independently of balance sheet NTA and are expected to trade, dependant on their level of non-core property related business exposure, at notable premiums.

Weighted Discount of Unstapled Trusts by Sector



Source: Adviser Edge, Bloomberg

Removing these stapled entities and examining only those stocks within the ASX 300 A-REIT index which represent targeted investments into specific property asset sectors, we see a much higher weighted discount to net tangibles assets. With office stocks trading at roughly 40% below their net tangible asset value, and both industrial as well as retail asset classes trading at similarly large discounts, the question as to whether the listed market is a reliable leading indicator of changes in direct property fundaments becomes increasingly central.

Gearing a Sensitive Issue

It is of course commonly understood that gearing, in general, increases sensitivity and variability of returns in both upturns and downturns. The use of debt to accelerate acquisition flexibility, increase purchase power, and decrease reliance on costly equity raising, has been a characteristic element of the listed property market for some time. What is generally forgotten in boom periods, however, is just how significantly net total returns can be affected when things take a turn for the worst.

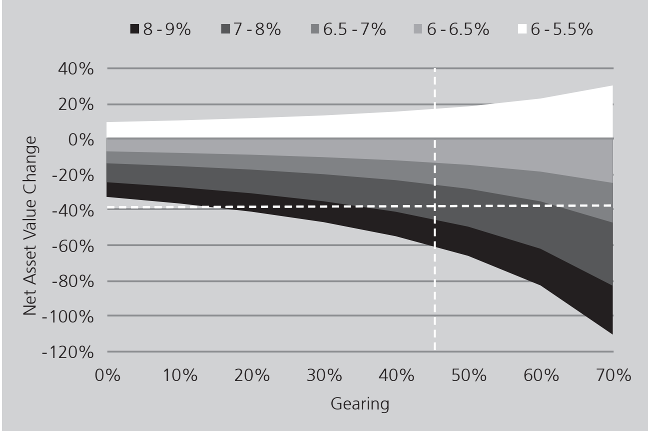
Using the approximate median gearing of unstapled stocks and their weighted discounted to net tangible asset value, it appears as though the market has priced in capitalisation rate softening roughly in the order of 100 to 200 basis points, which while representing a significant deterioration in the fundamentals of those direct properties underlying, is not beyond reasoning.

Starting with a base capitalisation rate of 6% the mathematical relationship between the level of gearing and capitalisation rate movements with net asset value is quite telling. Although the raw discount to which many stocks within the ASX 300 A-REIT index are trading may seem quite staggering at first, suggestive of strong reversionary potential upwards, when taking into account just how highly geared some of the REITs, such positive potential is strongly diminished.

With reference to the appendix, it is worth noting the extent to which many of these REITs are exposed to debt and other liabilities on their balance sheet. Further to this, the figures are understated quite substantially in some instances due to the Australian accounting standard for the reporting of investments in associates. The use of one-line equity accounting in cases of part interest exposures to direct property and special purpose vehicles means that debt is netted off against corresponding assets before being brought onto the face of the financial statements.

It has been those structures least transparent, and most exposed to high leverage on a look-through basis, which have suffered the greatest during recent months. There is an increasing awareness of default risk and capital value sensitivity risk in the market, and this has clearly been priced into affected property stocks. Following the credit crises events of the United States it seems that many managers and momentum investors have learnt a hard lesson about the importance of quality, a lesson unlikely to be forgotten, and one which will have flow-on implications of financial restructuring within the A-REIT sector.

Net Asset Value Sensitivity (Cap Rate Base of 6%)



Source: Adviser Edge, Bloomberg

Looking Forward

With current discounts of the A-REIT market as a whole being reflective of reasonable softening expectations in the underlying direct property market, and in line with the January review of listed property's outlook, a strong recovery in the short-term is not expected. While speculators and those looking to recoup recent loses are likely to be disappointed, there appears to be a developing case for those seeking long-term positions, given a stabilisation of current discounts, as well as potential consolidation and strengthening of the market structure as whole.

Similar to previous recommendations, those REITs with conservative gearing, quality earnings and vanilla trust structures are expected to outperform. While the view for the listed property market as a whole remains neutral, it is believed over the longer term that confidence will return, and moderated growth will again follow.

Unstapled Property Trusts		Quick Stats (30 June 2008)				Financial Ratios (31 Dec 2007)		Total Returns (30 June 2008)			
ASX Code	Name	Current Yield	Price ($)	Market Cap ($)	Price to Earnings[1]	Liab. to Assets	Payout Ratio[1]	1-Year	3-Year	5-Year	10-Year
Office											
CPA	C/wealth Property Office Fund	7.4%	1.24	1,997.2	3.7	32.1%	29.6%	-20.8%	5.9%	7.8%	–
MAFCA	Multiplex Prime Property Fund	10.8%	0.45	125.4	2.0	61.6%	21.4%	-23.0%	–	–	–
MOF	Macquarie Office Trust	14.4%	0.78	1,592.9	1.6	44.3%	23.0%	-46.6%	-7.7%	1.0%	5.2%
RNY	Reckson New York Property Trust	20.0%	0.28	73.8	3.2	10.8%	87.6%	-71.2%	–	–	–
RRT	Record Realty	157.1%	0.07	27.9	0.2	83.8%	0.0%	-79.4%	-37.1%	–	–
TSO	Tishman Speyer Office Fund	12.4%	1.37	469.9	1.6	51.5%	22.1%	-35.0%	-5.1%	–	–
WOTCA	Westpac Office Trust	10.0%	0.40	192.4	1.6	54.5%	27.5%	-25.4%	-6.0%	–	–
Retail											
AEZ	APN/UKA European Retail	24.0%	0.26	138.2	1.1	62.2%	39.1%	-74.1%	–	–	–
BWP	Bunnings Warehouse Trust	7.8%	1.71	515.5	2.5	30.4%	18.9%	-20.2%	2.8%	9.3%	–
CDP	Carindale Property Trust	6.8%	3.75	262.5	3.9	12.9%	25.6%	-17.4%	11.7%	14.4%	9.8%
CFX	CFS Retail Property Trust	6.5%	1.85	4,184.0	3.5	30.1%	22.1%	-8.4%	9.5%	13.5%	12.4%
MCW	Macquarie Countrywide Trust	16.7%	0.90	1,221.6	2.3	34.3%	40.3%	-48.0%	-13.8%	-3.5%	4.4%
MDT	Macquarie Ddr Trust	23.1%	0.40	371.8	2.0	18.6%	50.2%	-60.8%	-21.4%	–	–
Industrial											
IIF	ING Industrial Fund	11.4%	1.57	1,765.1	3.9	42.7%	42.4%	-25.3%	-1.4%	6.1%	9.9%
MIX	Mirvac Industrial Trust	33.2%	0.24	88.7	1.8	60.6%	72.9%	-69.1%	-27.9%	–	–
OIF	Orchard Industrial Property Fund	24.5%	0.33	113.9	–	70.6%	–	–	–	–	–
Diversified											
BJT	B&B Japan Property Trust	16.1%	0.81	419.5	3.0	65.6%	45.4%	-46.9%	-4.3%	–	–
CDI	Challenger Diversified Property	12.7%	0.67	357.9	5.8	34.6%	47.8%	-28.3%	–	–	–
CJT	CVC Trinity Property Fund	–	–	8.5	–	60.3%	0.0%	–	–	–	–
EPF	Esplanade Property Fund	11.4%	0.14	28.2	7.4	10.0%	87.2%	-21.2%	-0.5%	81.1%	221.1%
GJT	Galileo Japan Trust	20.0%	0.40	162.2	3.4	58.3%	33.8%	-51.3%	–	–	–
MPF	Multiplex Acumen Property Fund	15.3%	0.73	–	–	–	–	-35.5%	-1.5%	–	–
MPS	M/cook Property Securities Fund	28.0%	0.38	–	–	–	–	-56.0%	-20.2%	–	–
MRA	Mariner American Income Trust	30.5%	0.31	62.9	2.5	62.9%	75.5%	-56.7%	–	–	–
MRZ	Mirvac Real Estate Investment	17.1%	0.62	388.9	3.1	41.9%	129.1%	-46.2%	-13.4%	-2.4%	6.4%
MUE	Multiplex European Property	17.5%	0.49	121.0	–	–	–	–	–	–	–
RAB	ANZ Rabinov Property Trust	–	–	75.7	–	70.4%	33.9%	–	–	–	–
RAT	Rubicon America Trust	54.2%	0.11	42.6	0.8	79.4%	91.3%	-85.3%	-43.0%	–	–
RJT	Rubicon Japan Trust	55.6%	0.09	37.1	0.4	75.7%	40.4%	-85.6%	–	–	–
WST	Westralia Property Trust	–	–	–	–	57.4%	153.1%	–	–	–	–
Specialist											
AEU	Australian Education Trust	21.6%	0.64	85.7	3.1	56.5%	72.5%	-56.6%	-14.5%	-1.4%	–
CNR	Coonawarra Property Trust	–	–	7.6	–	18.4%	103.8%	–	–	–	–
CWT	Challenger Wine Trust	16.2%	0.58	98.8	11.5	44.4%	181.9%	-20.7%	-2.5%	2.0%	–
IEF	ING Entertainment Fund	15.5%	0.65	107.8	1.8	56.6%	26.4%	-41.8%	-7.3%	–	–
IHF	ING Healthcare Fund	11.6%	0.75	37.4	4.4	70.0%	55.8%	-25.3%	–	–	–
ILF	ING Community Living Group	24.4%	0.45	198.5	1.7	48.5%	42.2%	-58.4%	-6.8%	–	–
PTN	Prime Aged Care Property Trust	23.6%	0.48	264.2	–	67.2%	0.0%	–	–	–	–
TPF	Timbercorp Primary Infrastructure	–	–	46.7	–	70.8%	63.3%	–	–	–	–
Unstapled											
	Median	16.7%	–	125.4	2.5	56.5%	41.3%	-46.4%	-10.2%	-0.5%	7.3%
	Weighted Average	12.2%	–	–	3.1	38.7%	34.5%	-28.6%	-0.4%	6.5%	–
Overall											
	Median	14.4%	–	263.4	3.4	45.3%	46.6%	-46.2%	-8.8%	0.5%	7.3%
	Weighted Average	9.6%	–	–	6.7	43.6%	50.9%	-26.9%	4.4%	9.7%	–

Stapled Property Securities		**Quick Stats (30 June 2008)**				**Financial Ratios (31 Dec 2007)**		**Total Returns (30 June 2008)**			
ASX Code	Name	Current Yield	Price ($)	Market Cap ($)	Price to Earnings[1]	Liab. to Assets	Payout Ratio[1]	1-Year	3-Year	5-Year	10-Year
Office											
IOF	ING Office Fund	9.3%	1.15	1,452.8	2.3	35.7%	24.0%	-28.1%	3.8%	8.0%	–
REU	Rubicon Europe Trust Group	52.0%	0.10	49.1	0.7	68.0%	72.2%	-85.0%	–	–	–
Retail											
CER	Centro Retail Group	4.4%	0.32	720.2	0.8	36.0%	39.9%	-80.6%	–	–	–
CNP	Centro Properties Group	–	0.25	207.1	0.4	69.9%	70.6%	–	–	–	–
WDC	Westfield Group	6.8%	16.28	31,724.2	8.8	45.3%	57.5%	-12.9%	3.2%	–	–
Industrial											
GMG	Goodman Group	11.0%	3.09	5,301.8	8.1	48.5%		-49.0%	-2.7%	–	–
Diversified											
ABP	Abacus Property Group	11.7%	1.15	742.4	4.7	38.6%	60.1%	-35.1%	2.6%	7.4%	–
ALZ	Australand Property Group	17.1%	1.19	1,104.0	4.1	51.2%	58.6%	-34.6%	6.6%	7.0%	14.9%
APZ	Aspen Group	12.5%	1.24	328.1	4.5	41.6%	0.0%	-45.5%	17.1%	19.6%	–
CHC	Charter Hall Group	11.9%	1.06	461.6	8.8	37.5%	91.0%	-58.4%	–	–	–
CMW	Cromwell Group	12.9%	0.78	549.2	62.5	42.2%	0.0%	-26.2%	47.8%	–	–
DXS	Dexus	–	–	–	–	35.3%	72.7%	–	–	–	–
FKP	FKP Property Group	7.1%	4.90	1,300.3	5.5	65.3%	39.1%	-28.1%	27.7%	19.4%	27.6%
GPT	GPT Group	13.1%	2.22	4,882.1	3.9	40.6%	49.5%	-46.1%	-8.3%	1.7%	5.6%
MFT	MFS Diversified Group	–	–	–	–	44.6%	142.8%	–	–	–	–
MGR	Mirvac Group	11.1%	2.96	3,258.9	5.0	42.3%	56.2%	-42.3%	1.9%	0.6%	–
SGP	Stockland	8.7%	5.39	7,818.4	4.4	41.5%	36.3%	-28.1%	6.1%	8.9%	11.9%
TCQ	Trinity Group	11.7%	1.00	231.0	7.6	28.1%	41.6%	-62.8%	8.4%	–	–
TGP	Trafalgar Corporate Group	14.9%	1.01	86.2	1.9	42.3%	25.5%	-47.3%	–	–	–
THG	Thakral Holdings Group	8.3%	0.84	505.0	8.0	39.9%	66.9%	-17.6%	11.2%	17.4%	13.7%
VPG	Valad Property Group	16.6%	0.67	1,077.4	4.2	43.7%	74.7%	-60.7%	-12.7%	1.0%	–
Specialist											
BBC	B&B Communities Group	14.7%	0.43	280.2	30.7	76.8%	0.0%	-58.0%	–	–	–
BEC	Becton Property Group	19.8%	1.43	237.9	2.7	73.1%	68.0%	-56.6%	24.7%	–	–
BLP	B&B Residential Land Partners	27.5%	0.30	52.5	17.8	63.7%	443.6%	-57.5%	–	–	–
CKP	Cheviot Kirribilly Vineyard Group	12.6%	1.05	13.9	53.9	40.6%	419.1%	-16.6%	–	–	–
LEP	ALE Property Group	11.4%	2.95	268.7	2.7	66.4%	30.2%	-26.2%	22.1%	–	–
MLE	Macquarie Leisure Trust Group	13.2%	1.49	345.4	6.4	32.2%	76.0%	-48.9%	-1.6%	22.6%	–
Stapled											
	Median	12.2%	–	505.0	4.7	42.3%	58.0%	-45.8%	-1.8%	4.8%	8.9%
	Weighted Average	8.9%	–	–	7.5	44.8%	54.9%	-26.5%	5.5%	10.4%	–
Overall											
	Median	14.4%	–	263.4	3.4	45.3%	46.6%	-46.2%	-8.8%	0.5%	7.3%
	Weighted Average	9.6%	–	–	6.7	43.6%	50.9%	-26.9%	4.4%	9.7%	–

Source: Bloomberg 1 Earnings as reported according to AIFRS requirements, inclusive of unrealised revaluation earnings

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