



Zenith Media Release

Zenith's 2014 Property Sector Review

RISING INTEREST RATES NOT ALWAYS BAD FOR REITS

Tuesday 3 June, 2014.

While the interest rate sensitivity of REITs has recently spiked, Jonathan Baird, Investment Analyst with Zenith Investment Partners, believes this is a relatively short-term trend and should not be relied upon for structural asset allocation decisions.

When discussing Zenith's Property Sector Review released this week Baird said 'The view that REITs have bond like characteristics may be partially derived from the income pass through that is supported by the trust tax structure. This structure generally results in higher dividend yields and payout ratios relative to broader equity markets. However, changing property valuations and fluctuating earnings streams have delivered varying correlations to the Australian bond market over the past ten years'.

Baird said "Generally, managers continue to view the sector as trading at fair value, with many believing current conditions are relatively conducive for active management". The report also notes that many managers in both domestic and global REITs are anticipating a total return in the range of 7% to 9% for the next 12 months.

From an initial investment universe of 70 Property products 5 were rated "Highly Recommended"; 15 "Recommended"; and 9 were assigned an "Approved" rating. In addition to the investment grade ratings, 3 funds were placed on "Redeem"; 36 were "Not Rated"; while 2 strategies remain "Under Review" due to investment staff departures.

The report highlights that both the domestic and global REIT (hedged) sectors performed slightly below expectations, achieving 4.9% and 5.1% respectively for the 12 months to March. While this performance was materially down on the exceptionally strong prior year, it does support the thesis that REITs have returned to more traditional and conservative business models.

ENDS

Issued by Zenith Investment Partners www.zenithpartners.com.au

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