Property's higher ground

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Falling yields on listed property trusts are prompting investors to turn to syndicates.

Small investors are switching out of listed property trusts and into property syndicates in a bid to maintain high yields from their property securities. Yields on listed property trusts (LPTs) have fallen over the past couple of years as unit prices have been bid up. Many investors feel they are no longer getting the high yields LPTs offered a few years ago and they have switched to syndicates, which still offer the prospect of 8-9% yields.

Sean Murray, the head of property securities at Perpetual James Fielding says there has been a big switch to syndicates. "We have seen new syndications worth about $500 million a year since the late 1990s. Last year $990 million was raised for new syndicates, and in the financial year just past, the figure was about $2 billion. That is more than capital raisings by LPTs last year."

LPTs and syndicates are similar forms of property securitisation. Both are structured as unit trusts and have small minimum investments, making them suitable for private investors. LPTs are listed on the Australian Stock Exchange; syndicates are unlisted, usually closed to new investment once their initial capital is raised, and have a fixed term of seven to 10 years. Syndicates are usually smaller than LPTs - some own one small commercial building worth $10-20 million and have a few dozen investors. And syndicates are geared; most fund their acquisitions with about half equity and half debt, and some have 60-65% gearing. Syndicates flourished in the late 1980s but developed a bad name after the commercial property crash in the early 1990s. They re-emerged in the mid-1990s and have become an established feature of the property investment market.

The biggest syndicate group is Centro Properties Group, which acquired another large syndicate group, MCS, in July. The combined operation includes 30 syndicates with assets of $2.1 billion and 15,000 investors. Centro's chief executive, Andrew Scott, says there has been strong demand this year for investment in property syndicates.

Centro is a retail property specialist; almost all Centro-MCS's assets are shopping centres and bulky-goods centres. Its most recent offering was Centro Syndicate 8, which was closed in June after raising $47.5 million. It is using the capital raised (plus debt) to buy 50% of Bankstown Square shopping centre in western Sydney and a

stake in David Jones's Perth CBD property. The income yield in

the first year will be 8.2%. Big LPTs such as GPT or Westfield Trust are trading on yields of 5-6.5%. Scott says Centro's early syndicates were sold on yields of more than 10%, but the demand for good-quality commercial and retail property has meant it is no longer possible to offer double-digit yields.

The chief executive of Macquarie Bank's direct property group, Richard Cutler, says the style of syndicates is changing. "In a number of early syndication deals the building was a small commercial one with a single tenant on a long lease. We think that style is going out of fashion. The buildings are bigger, often there is more than one asset in a syndicate and multiple tenants are preferred. These changes are all aimed at reducing risk."

In Macquarie's most recent syndication, last year it raised $102 million to fund the purchase of 50% of 1 Martin Place, a hotel and office property in central Sydney. Cutler says 3000 investors subscribed for units and will receive an initial yield of 8.3%.

Centro and Macquarie, two of the larger operators in the syndication market, have done bigger and more complex deals over the years, but several smaller groups still offer opportunities to invest in small commercial and retail buildings. **Century Funds Management**, based in North Sydney, specialises in office buildings worth $15-25 million. It takes a minimum investment of $250,000 and aims to have no more than about 30 investors for each syndicate.

A director of **Century**, John McBain, says yields are in the 8.5-10% range. **Century** has also done syndications using bulky-goods centres as the asset; yields are higher, up to 14%, but there is more risk involved in the business. **Century** has not done a syndication this year. "Debt is cheap so people are out there buying. We think assets have become expensive in our end of the market. There is certainly more competition," McBain says.