

# The Australian

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## Need to refinance no hurdle for trusts

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### **AUSTRALIA'S large listed and unlisted property trusts will have to refinance a hefty \$35 billion of debt over the next three years.**

Head of real estate research at investment bank UBS, John Freedman expects the refinancing to go through without a problem after two years in which trusts, unable to renegotiate funding, have undertaken massive equity raisings.

The sector's average gearing has fallen from more than 30 per cent to more than 20 per cent following last year's \$18bn of capital raisings, and banks' exposure to large, quality trusts has dropped by \$15bn in the past year.

Mr Freedman said listed trusts were sitting on \$3bn in cash and another \$16bn to \$16.5bn in undrawn credit lines.

In fact, he said, some trusts might consider giving some of the money back to their banks, as the cost of debt had tripled since the crisis.

Despite the high level of liquidity, few trusts have ventured into mergers and acquisitions. The exception is Mirvac, which has made an offer to take over Westpac Office Trust.

"The prospect of mergers and acquisitions would depend on the refinancing and liquidity," Mr Freedman said, adding that Europe's rolling sovereign debt crisis was making trusts cautious.

But if the economy continued to do well, there would be more mergers and acquisitions, he said.

Commenting on Stockland's 13.1 per cent stake in GPT, Mr Freedman said Stockland had structured the investment to keep its holding cost down.

"I don't think there is anything on their mind in the next six months," he said.

Trusts would have to depend on organic growth -- such as Stockland, Westfield and Dexus -- which had turned on their development pipelines, he said.

"The next hill is income, and it will be a slow climb," he said.

Over the next five years, Mr Freedman said, earnings growth would average about 3.5 per cent, and with yield growth, the sector was forecast to deliver a total return of 8-10 per cent.

Mr Freedman said Australian real estate investment trusts had returned to being a defensive investment, outperforming choppy equities markets to deliver stable returns.

They outperformed the broader equities market by 2 per cent in the past month, and by 10 per cent over the quarter.

UBS preferred the retail and residential property sectors, Mr Freedman said. Retail trusts would continue to enjoy sales growth against a backdrop of a continuing strong economy and a further tax cut in July.

He said the bank expected "one to two" more rate rises in the next six months, but the accelerated hike of the past year would not be repeated.

Slower rate rises would boost the residential sector next year, although the next six months would still be tough.

He did not expect office trusts to report big rises in valuation gains in the second half because values would be tempered by high vacancies and lower rental growth.

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