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# PKF REIT Monitor **2010**

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## We're still here

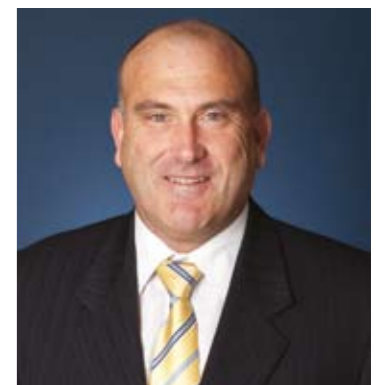
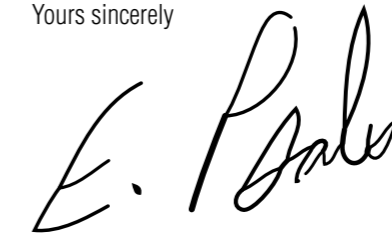
The above catch cry may be relevant for many real estate investment trusts (REITs) in the sector in reply to the “doomsday” scenario that was being painted for them two years ago. Indeed, several managers could now make the above claim as their REITs have weathered the storm and are well placed to thrive over the coming decade.

It is the Big 8 REITs and perhaps up to 10 others that have managed to successfully re-position themselves post the Global Financial Crisis (GFC). However, at the smaller end of the market there are numerous REITs still under severe financial pressure, in some cases only staying alive because their senior lenders are allowing them to, with correspondingly demanding conditions attached to that life support system.

Mergers and acquisitions, as predicted in last year's Monitor, have now commenced with six takeover transactions over the FY2010. The dominant feature of all of these has been prices offered to unitholders that are at a significant premium to ASX pricing but of an equally significant discount to net tangible assets (NTA). We see this trend continuing while many REITs continue to trade at heavy discounts to their NTA.

We have purposely used the same criteria as we reported on in last year's “PKF REIT Monitor”. This has enabled us to better compare and contrast one of the most tumultuous two years in the history of REITs. I hope you find our Monitor a valuable resource in understanding the current health of the sector and where it may be headed.

Yours sincerely



**Ed Psaltis**

Partner, Head of Property and REIT Group  
PKF Chartered Accountants & Business Advisers



# 1. Introduction

This edition of the “PKF REIT Monitor” continues to analyse listed REITs in Australia from a financial viewpoint. Debt remains a key consideration in the sector and this year’s Monitor again focuses on all things ‘debt’.

Information used to compile this Monitor has been sourced from the REITs’ annual reports and ASX market announcements, as well as Bloomberg and Capital IQ. The four criteria researched in this year’s Monitor are as follows:

- i. Debt Maturity Profile (current vs. non-current debt)
- ii. Composition of Interest Bearing Debt
- iii. Change in Gearing Levels over the year
- iv. Change in the Discount of Market Price to NTA over the year

Notwithstanding the turmoil that has occurred in the REIT market since the onset of the GFC, there continue to be 48 listed Australian REITs that we have covered in this Monitor. We excluded REITs where necessary information was not available, or where we considered they were not “mainstream” due to their very small size or nature. Two REITs included in last year’s Monitor have been excluded this year as both were the subject of takeover activity pre 30 June 2010. These were Challenger Kenedix Japan Trust and Mirvac Real Estate Investment Trust.

Throughout our Monitor we refer to the “Big 8”, which describes the eight largest REITs which, from several perspectives, have broken from the pack and are arguably better placed now to grow and increase returns for investors. These eight REITs are:

- » CFS Retail Property Trust
- » Commonwealth Property Office Fund
- » Dexus Property Group
- » Goodman Group
- » GPT Group
- » Mirvac Group
- » Stockland
- » Westfield Group

It is interesting to track the performance of these eight REITs across our four criteria, given the divide that has occurred in the sector as these larger REITs have arguably recovered better than the rest. We have highlighted the Big 8 in all charts to assist the reader in this analysis.

In Section 2 we provide a summary of the most significant findings in our Monitor. Section 3 covers both direct and indirect taxation issues as they specifically affect the listed REIT sector. The balance of the Monitor then provides detailed results for listed REITs across all four criteria.

We have included, wherever possible, the bar charts from last year’s “PKF REIT Monitor” to allow comparison over the two year period.



Information used to compile this Monitor has been sourced from the REITs’ annual reports and ASX market announcements, as well as Bloomberg and Capital IQ.

## 2. Top 10 “need to know”

The following are 10 of the most significant observations from the “PKF REIT Monitor” over the FY2010.

1. The level of short term debt maturity remains high in the REIT sector. It fell across the sector but only by 1%, sitting at 27% of total debt. Two years ago it was 17%.
2. However, there are now only two REITs with all of their debt due for repayment or refinancing in the next 12 months.
3. Banks are still not lending to the REIT sector as they mostly remain overweight in property lending exposure. The result has been bank debt reducing to an all time low in the sector at only 60% of total debt. CMBS is also down, with medium term notes filling the void, now standing at around a quarter of total debt for REITs.
4. Although medium term notes have risen in market share of REIT debt, they mostly remain the closed domain of the Big 8 REITs. At 30 June 2010, it remained the same nine REITs with medium term notes as at 30 June 2009, these are the Big 8 plus ALE Property Group. Others have and are trying to successfully issue rated medium term note debt but to date have been unable to.
5. All but two of the eight REITs with CMBS debt managed to reduce that debt over the year. One of the two that increased their CMBS exposure, Westpac Office Trust, was swallowed up by Mirvac Group post 30 June 2010. The only remaining REIT, at the time of going to print, with increased exposure to CMBS is therefore Centro Retail Trust, which continues to trade at the behest of its banking club.  
So there has been a gradual exit from CMBS exposure across REITs in what continues to be a virtually closed debt market.
6. Sector wide, gearing only fell marginally over the year, down 2% to 45%. However, 63% of all REITs managed to reduce their gearing levels. The Big 8 are still way below the sector average, with their average gearing level at only 25%.
7. Devaluations of properties under Australian International Financial Reporting Standards (AIFRS) amounted to only \$2 billion this year (FY 2010), versus \$19 billion in FY2009. However, 32 REITs recorded further asset write-downs over FY2010.  
The top five REITs bucking this trend, with increased property values were:
  - Westfield Group
  - FKP Property Group
  - CFS Retail Property Trust
  - Bunnings Warehouse Property Trust
  - Tishman Speyer Office Fund (although off a low base)
8. Just under half of the REITs disclosed their look-through gearing levels at 30 June 2010. Of those that did, their look-through gearing was an average of 8% higher than basic balance sheet gearing. Whilst more should be disclosing, there is a need for consistent calculation of the figure, as highlighted by several market participants.
9. There was a big fall in the average discount to NTA, from 54% to 28%, as ASX pricing improved and property values stopped their “free fall”. However, 43% of all REITs were still trading at a discount to NTA of greater than 40% at 30 June 2010.
10. The first six months of FY2010 saw very positive recovery in ASX pricing for most REITs. However, the last six months of the year saw a reversal of this trend, with many REITs losing some of the ground they had made up over that first six months.

...there has been a gradual exit from CMBS exposure across the REIT market...



# 3. Current REIT Tax Issues

## Direct Tax

### Income Taxation

This Taxation Report considers the compliance risks associated with particular income tax items and, where relevant, highlights proposed developments for the tax item. Compliance risks and future taxation developments present a unique set of tax risks and business opportunities.

### Compliance Risks

The Commissioner of Taxation released his annual publication titled "Compliance program 2010-11" in July 2010. The compliance program describes the tax and superannuation compliance risks for various market segments that are of most concern to the Australian Taxation Office (ATO). **We have reviewed the ATO compliance program specifically for REITs and it seems the tax risks highlighted in this section will be the subject of ATO review during the year of income ending 30 June 2011.**

### Future Developments

The Federal Government continues with the implementation of taxation reform that affects REITs. We highlight future income tax developments to assist with your tax risk management strategy.

### Losses and Deductions

- » Loss generation, satisfaction of recoupment tests, characterisation of revenue versus capital losses and, in particular for managed investment trusts (MITs), where capital gains tax (CGT) treatment may be elected.
- » Artificial exploitation of the 30% general business investment allowance.

### International

- » Thin capitalisation and compliance with 'safe harbour' debt test, given current volatility in the value of property and financial securities.
- » Transfer pricing and shifting of profits offshore or shifting of foreign losses onshore, and in particular, tax mischiefs associated with the removal of foreign loss quarantining.
- » CGT exemption for the sale of non portfolio interests held by foreign residents in land rich companies or trusts, and, in particular, determination of market values for land rich calculations.
- » Disclosure of capital gains derived by non residents upon disposal of Australian real property.
- » Repeal of FIF rules and related deemed present entitlement rules from 1 July 2010 and replaced by new rules to target specific Foreign Accumulation Funds (FAFs).
- » Reform of CFC rules and meshing with Division 230 (TOFA) rules, Division 250 (assets put to tax preferred use), debt forgiveness, thin capitalisation and debt/equity rules for CFCs.

### Tax Consolidation

- » Tax cost setting amount and capital gains when entities join or exit, including impact of restructures and business activities where tax and accounting outcomes are not aligned.
- » Retrospective amendments that may affect the tax cost setting amounts, residual tax consolidation provisions and rights to future income for the following types of property assets:
  - Retirement village resident contracts and deferred management fee rights;
  - Property management rights;
  - Property funds management rights;
  - Long-term construction contracts;
  - Property leases;
  - Off the plan contract sales; and
  - Property development agreements.
- » Other tax consolidation amendments that may impact property groups include:
  - Treatment of CGT straddle contracts;
  - Division 43 deductions as inherited deductions; and
  - Elections where retrospective treatment is sought for past transactions.
- » Discrete issues in relation to income tax liabilities of consolidated and MEC groups including clean exits, tax sharing agreements and PAYG instalments.

## 3. Current REIT Tax Issues

### Restructuring and Financing

- » M&A activity involving deleveraging, divestment and acquisition strategies through the use of highly structured equity-like instruments and other cashless transactions.
- » Hybrid securities used for capital raisings, debt refinancing and cross border financing where the instrument may be classified as debt for income tax but treated as equity for accounting purposes.
- » Stapling and de-stapling of the company and unit trust structure.
- » Debt buyback arrangements and associated tax consequences.
- » Characterisation of capital expenditure as revenue deduction, CGT cost base item or “black hole” business related costs.
- » Limited CGT rollover rules for fixed trusts following the removal of trust cloning concessions.
- » Application of trading trust rules (Div 6C) within a stapled security structure where subsidiaries of the stapled group acquire a trading business.
- » Proposal to expand CGT rollovers where foreign residents utilise a share or interest sale facility.

### Other Tax Risks

- » Arrangements designed to reduce WHT for trust distributions made to non residents including arrangements designed to re-characterise payments to non residents.
- » ATO risk assessment of taxpayers to which TOFA applies, including documentation of elections required under TOFA.
- » Impact of the High Court decision in the Bamford Case and the ATO's decision impact statement – application of the proportional approach for distribution of trust income and power of trustee to re-characterise income under the trust deed.

### Managed Investment Trusts

- » New and expanded definition of a MIT requires the trust to:
  - a. have a relevant connection with Australia;
  - b. be registered as a MIS;
  - c. not be a trading trust;
  - d. have a substantial proportion of investment management activities carried out in relation to Australian assets; and
  - e. be widely held (e.g. wholesale investment trusts may qualify as MITs from 1 July 2010).
- » Proposed new MIT taxation regime to apply from 1 July 2011 with the following broad features:
  - irrevocable election to apply CGT to eligible shares, units and property – already law;
  - reduced rate of final WHT (7.5%) for non resident investors – already law;
  - carry forward under and over errors of net income up to a 5% cap;
  - cost base uplifts for units;
  - flow through characterisation of trust distributions;
  - MITs with clearly defined rights can choose attribution method of taxation in lieu of the current present entitlement to tax income method; and
  - MITs with clearly defined rights can be treated as fixed trusts for loss recoupment testing.
- » MITs can now claim treaty benefits under the new Australia-NZ double tax agreement.

## Indirect Tax

### The Henry Review

In December 2009, the much anticipated detailed report into Australia's Future Tax System (commonly referred to as The Henry Review) was finally released. Whilst most of the initial media reaction to the report focussed on the proposed mining resources super profits tax, it has become clear that the State Taxation reform elements of the review will gain greater prominence during the next term of the Federal Government.

One of the key messages of The Henry Review was a recognition that land was to continue to be an important source of revenue for State and Territory governments for years to come.

Whilst all States and Territories are at various stages of a process that will eventually result in stamp duties being abolished on all non-land transactions by 2013, at this stage stamp duty will continue to apply to land transactions from 2013 onwards.

What is unclear is whether (and at what point) stamp duty will also be abolished on land transactions.

The Henry Review made it clear that the abolition of stamp duty on land transactions is required with greater reliance placed on a broader-based land tax together with consumption taxes.

What remains to be seen is whether the abolition of stamp duty on land transactions will be one of the items on the agenda of the Treasurer's proposed tax forum in the first half of 2011.

### Stamp Duty

The preceding 12 months witnessed a number of legislative amendments, budget announcements and cases that impact on the stamp duty landscape. Two of the more important developments include:

- » Introduction of a stamp duty exemption in Queensland that applies to “top hatting” restructures.

In broad terms, a new exemption from transfer duty and land rich duty was inserted to apply to “top hatting” restructures which satisfy the CGT rollover requirements in Subdivision 124-Q of the Income Tax Assessment Act 1997 (Cth) (including stapled securities) and additional conditions.

This amendment broadly aligns the Queensland duty provisions with the approach in all other States and Territories.

- » Uncertainty (at least insofar as the State Revenue Offices are concerned) continues to apply to the circumstances in which the exemptions that apply to changes of trustees / custodians operate.

For example, in *Australian Unity Retirement v Chief Commissioner of State Revenue* [2010] NSWSC 752, notwithstanding that the appointment of a new trustee did not attract the operation of the relevant exemption applying to changes of trustees, the court held that an exemption was available under relevant corporate reconstruction relief provisions of the NSW Duties Act (much to the disappointment of the NSW Chief Commissioner for State Revenue).

Significantly, the court held that a failure to meet the relevant conditions for exemption under the change of trustee concessions did not mean that relief under an alternative exemption was not available.

Whilst not strictly a case dealing with whether the change of trustee concession applied, it provides another illustration that stamp duty concessions will not always automatically apply in circumstances where there is a change of trustee / custodian and care needs to be taken to ensure the exemption applies prior to relevant transfer documentation being executed.

...a new exemption from transfer duty and land rich duty was inserted to apply to “top hatting” restructures...

### GST

In June 2010, Treasury released a discussion paper that looked at a number of possible changes to Australia's reduced input tax credit (“RITC”) regime. Of particular relevance to the REIT sector is the Government's intention to amend the GST Act and Regulations to reduce opportunities for taxpayers to access the availability of 75% reduced input tax credits in respect of the GST component of fees charged by trustees / responsible entities.

When enacted, the provisions will potentially result in increased trustee / responsible entity costs by virtue of the underlying trusts not being able to reclaim 75% of the GST component of such costs as input tax credits.

As at 31 October 2010, no draft legislation was released for the proposed changes to current RITC rules.

Another proposed change of note relates to the GST-free going concern provisions of the GST Act.

Although the proposed change was announced in 2009, the Government has confirmed the changes to the GST-free going concern provisions will apply from 1 July 2011.

The broad effect of the changes will be to shift the risk of getting GST-free going concern classification ‘right’ from the vendor to the purchaser via introduction of a “reverse charge” mechanism.

Whilst the change should still result in the purchaser (in most cases) not having any net GST liability to meet (given any liability would ordinarily be offset by a corresponding input tax credit entitlement), it may result in increased stamp duty costs for the REIT sector in terms of sales / purchases of tenanted properties. For example, it is possible the change will result in a purchaser of a tenanted property / building having an increased stamp duty cost by virtue of the GST applicable to any going concern purchase under a reverse charge mechanism.



# 4. Detailed Results

Debt Maturity Profile

Composition of Debt

Change in Gearing Levels

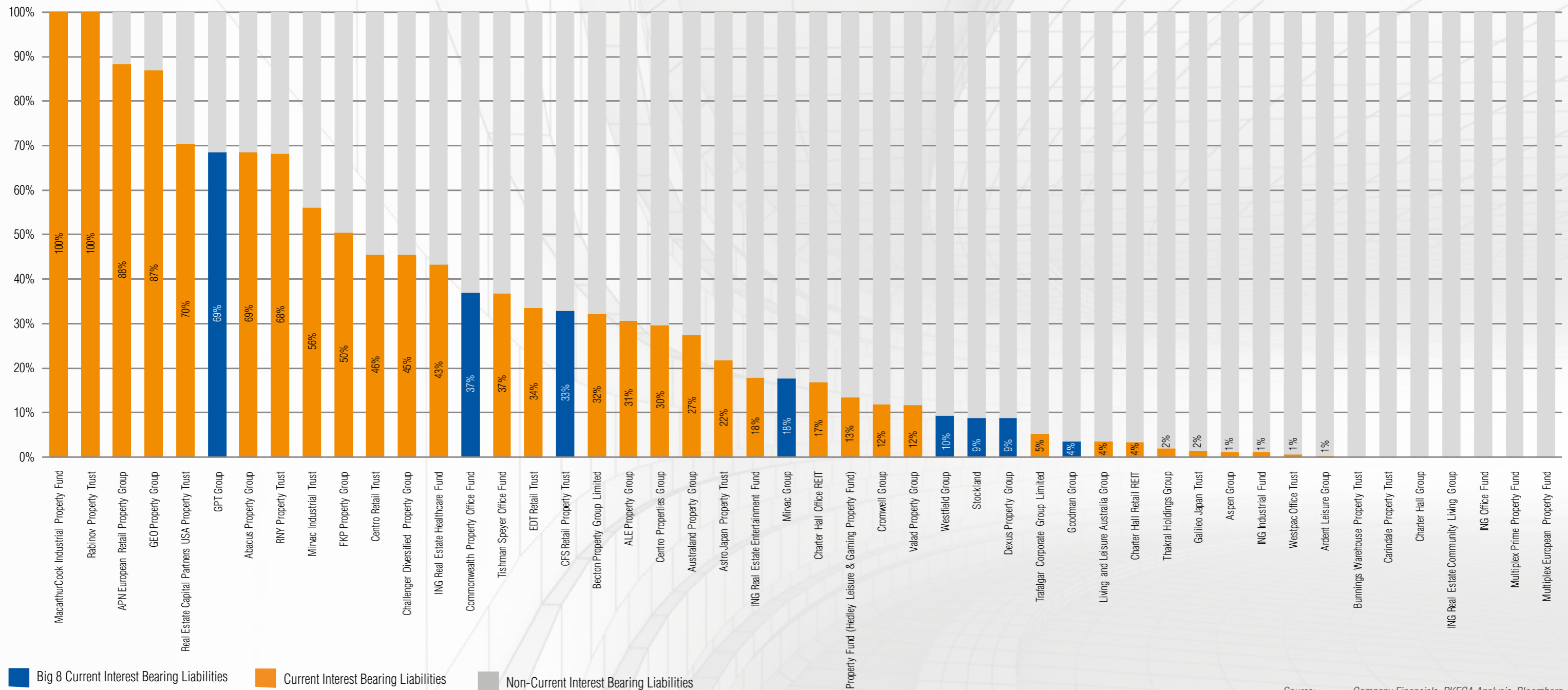
Change in Premium /  
(Discount) to NTA

# Debt Maturity Profile

## Debt Maturity as at 30 June 2010

The graph below shows the current and non-current portion of debt for REITs as at 30 June 2010.

### 2010 Current and Non-Current Interest Bearing Liabilities



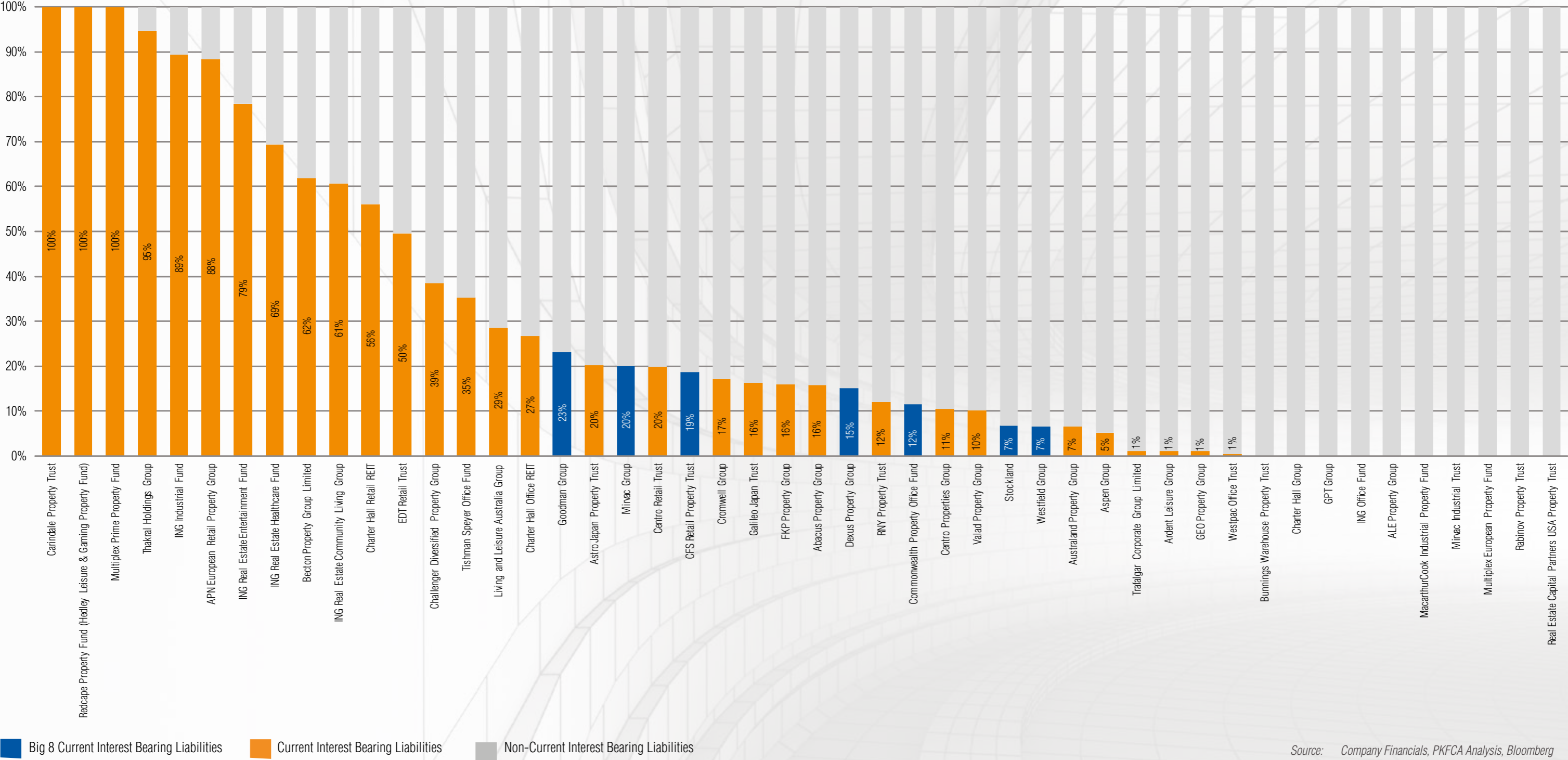
Source: Company Financials, PKFCA Analysis, Bloomberg

# Debt Maturity Profile

## Debt Maturity as at 30 June 2009

The graph below shows the current and non-current portion of debt for REITs as at 30 June 2009.

2009 Current and Non-Current Interest Bearing Liabilities



Source: Company Financials, PKFCA Analysis, Bloomberg

# Debt Maturity Profile

This criteria divides total interest bearing debt for each REIT into current and non-current percentages. Current is defined as debt that is due in the next 12 months, as at 30 June 2010. Pre GFC, this analysis was considered relatively unimportant as debt re-financing or rollover was taken almost as a given. Over the FY2010 however, the major banks in Australia continued to reduce their exposure to the property sector, where they all arguably over lent up to December 2007. Foreign lenders have largely left our shores or are in wind-down mode, in particular regarding their exposure to the property market (although some new players are emerging). With even greater problems in their "home countries", these existing foreign financiers have all but closed their doors to new loan facilities to the Australian property sector. It is against this background that REITs continue to attempt to manage their debt maturity profiles, with the following results over the FY2010:

- » Those REITs most exposed to short-term debt maturity have managed to reduce their exposure somewhat, often through selling down their asset portfolio, or, if possible, raising further equity. Of the "Top 10" most exposed REITs, the level of current debt has fallen from 84% to 76%, between 30 June 2009 and 30 June 2010.
- » Notwithstanding the above, the overall level of current debt across the sector remains high, at 27%. This sector average has only fallen 1% over the 12 months from 30 June 2009. Early in the GFC, this average was a healthier 17%. We believe it will be some time before the current portion of debt across the sector reduces to these levels again, given the continuing very constrained banking environment for listed REITs, although medium term notes are assisting somewhat in this regard.

Current Debt	2010	2009	2008
REIT Sector Average	27%	28%	17%

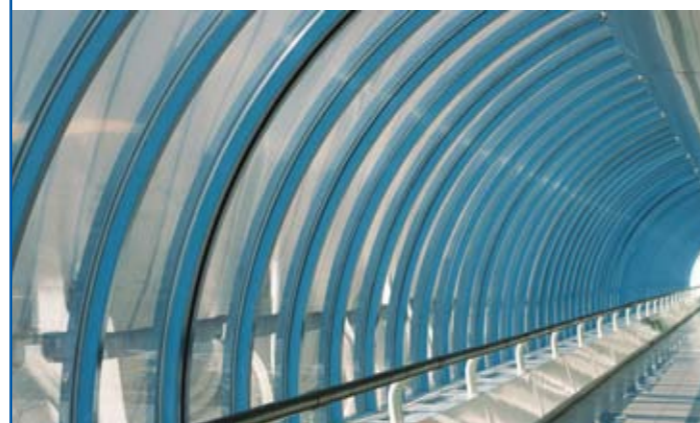
- » The implications of the above table include:
  - i. Continuing pressure on REITs to sell down property and use the proceeds to repay and reduce their bank debt, particularly the current portion of that debt. This pressure will be particularly prevalent in the smaller end of the REIT sector.
  - ii. New growth opportunities in the smaller end will be passed up due to the lack of funding available, while the Big 8 will be able to continue to grow given their more secure debt and equity funding position, i.e. basically a "war chest" is available in most of these REITs.

- » The REIT sector continues to operate at two levels, with the Big 8 more easily able to continue with expansion plans than the balance of the sector. Only three of the Big 8 had percentage levels of current debt higher than the sector average of 27%. The other five enjoyed very low levels of debt maturing in the next 12 months, as demonstrated in the following table:

REIT	% Current Debt
Mirvac Group	18%
Westfield Group	10%
Stockland	9%
Dexus Property Group	9%
Goodman Group	4%

Importantly, all of the above have been able to access other longer term forms of debt finance than simply senior bank debt. This has enabled them to largely avoid material short term maturity debt exposure.

Foreign lenders have largely left our shores or are in wind-down mode, in particular regarding their exposure to the property market...



- » It is a well reported fact that global bank ING is reviewing their presence in the Australian REIT sector and may exit the market over the next year. A review of the debt maturity profile of their stable of five listed REITs indicates that ING has taken significant steps in "getting its house in order" over the last 12 months. We summarise hereunder the reductions in current debt maturity profiles achieved across all ING REITs since 30 June 2009:

ING REIT	% Current Debt	
	30 June 2010	30 June 2009
ING Office Fund	Nil	Nil
ING Real Estate Community Living Group	Nil	61%
ING Industrial Fund	1%	89%
ING Real Estate Entertainment Fund	18%	79%
ING Real Estate Health Care Fund	43%	69%

The above indicates substantial reductions in short term debt maturity risk across all ING REITs. This should have a positive effect on the value of both the group's funds management rights and its ownership stakes in each of these trusts.

- » **REITs with no current debt (low risk):**
  - Bunnings Warehouse Property Trust
  - Carindale Property Group
  - Charter Hall Group
  - ING Real Estate Community Living Group
  - ING Office Fund
  - Multiplex Prime Property Fund
  - Multiplex European Property Fund

It is no coincidence that two of these REITs are ING managed, where a concerted effort was made over FY2010 to reduce debt maturity risk, as detailed above. The other REITs listed are all in relatively stable positions, having weathered the GFC better than most REITs. Charter Hall Group in particular has moved from survival to expansion mode as evidenced by its ground breaking acquisition of the management rights for the entire Macquarie Bank listed REIT group. This has transformed Charter Hall Group into a major player in the REIT sector.

- » **Five REITs with highest levels of current debt:**
  - MacarthurCook Industrial Property Fund
  - Rabinov Property Trust
  - APN European Retail Property Group
  - GEO Property Group
  - Real Estate Capital Partners USA Property Trust

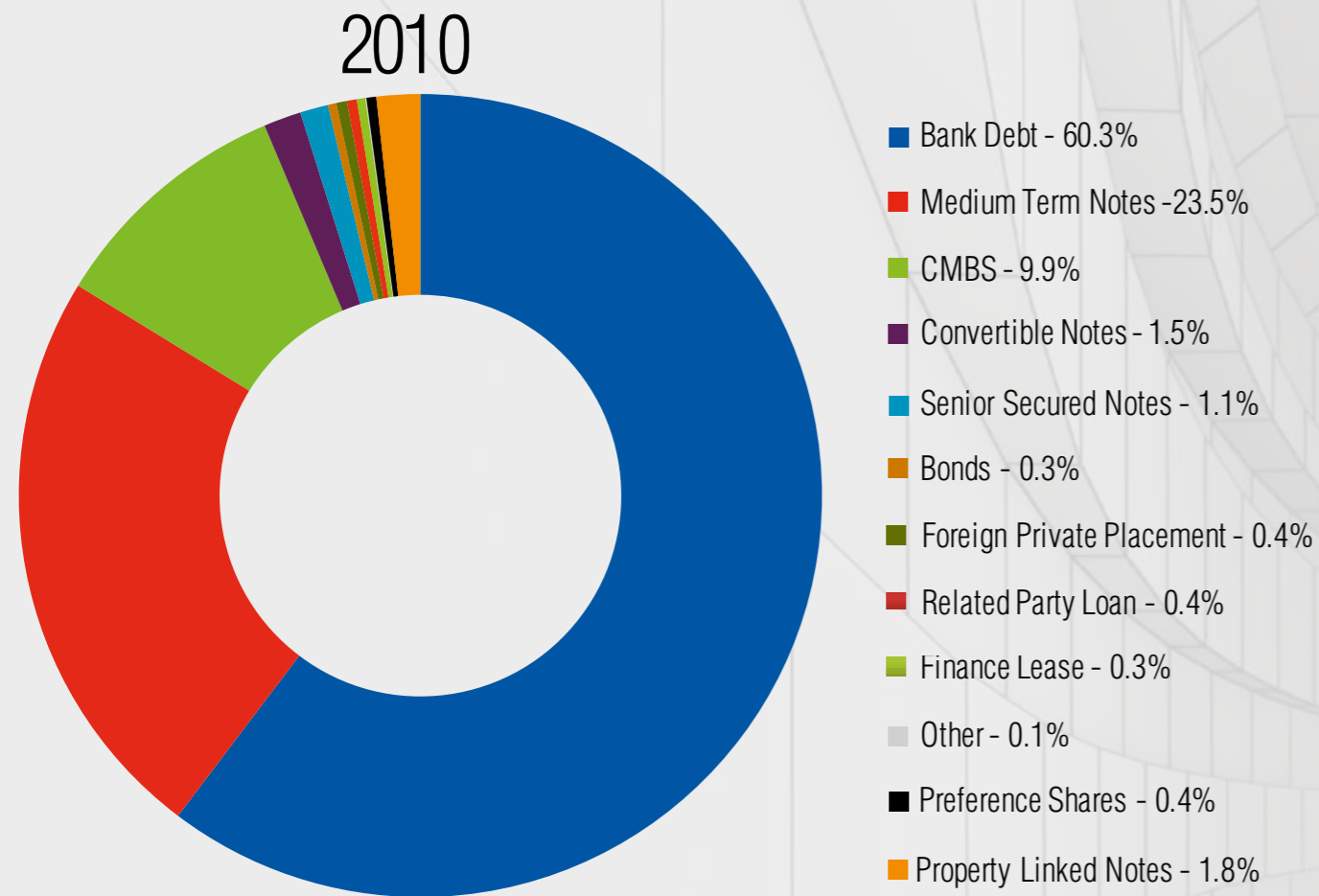
Most of the five REITs above have been particularly hard hit by the GFC. It is not surprising that they appear at the upper end of the debt maturity profile risk assessment. MacarthurCook Industrial Property Fund was recently the subject of a successful takeover by a listed U.S. REIT, with the offer price well above current ASX pricing, but below NTA for this small REIT. The four other REITs continue to operate and some have successfully re-negotiated longer term debt agreements. However, other than GEO, they continue to feel the effects of high debt levels with their ASX pricing generally still depressed.

# Composition of Debt

## Overview

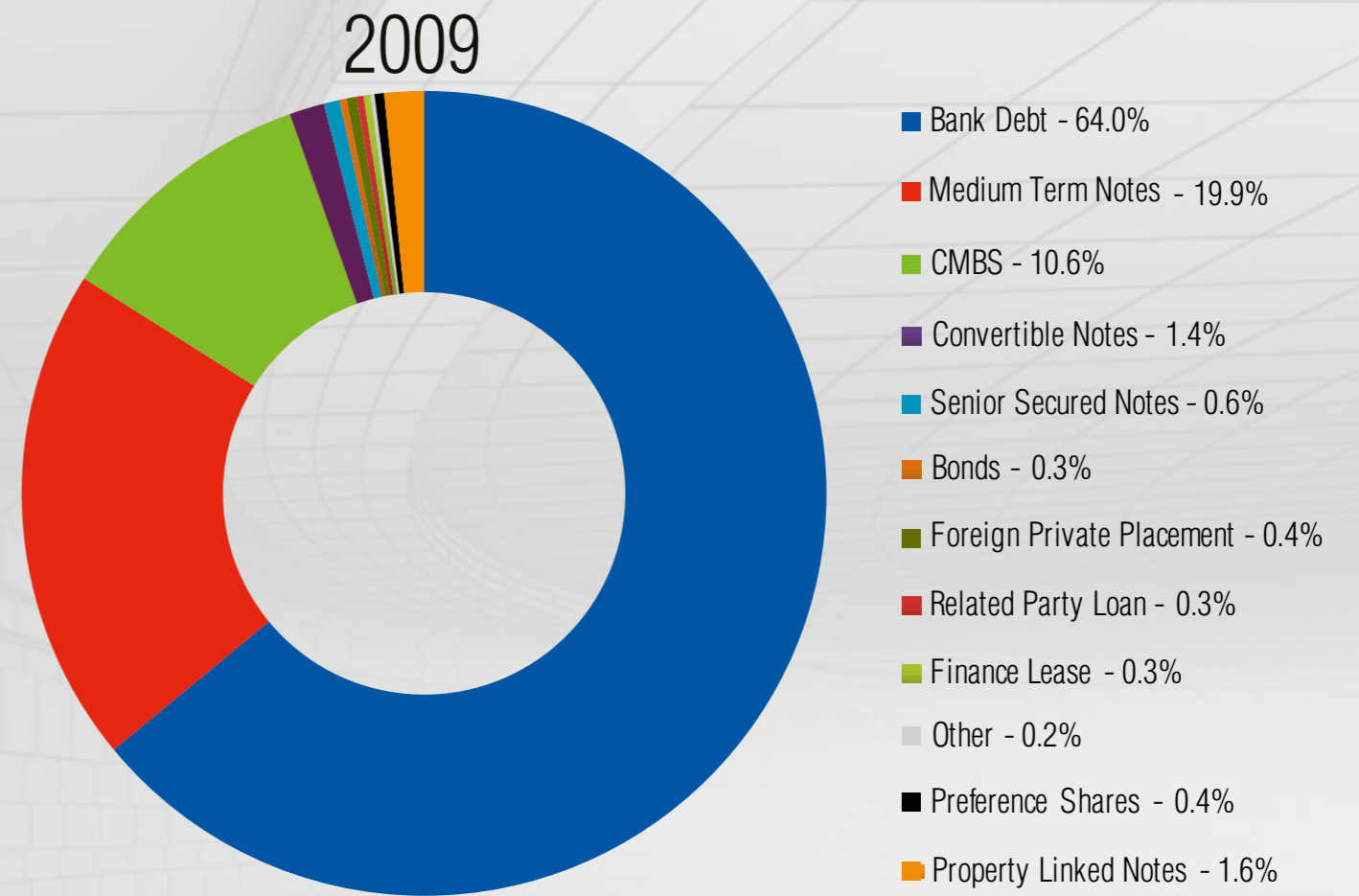
The following charts highlight the varying types of debt employed by REITs over the financial years 2009 and 2010.

Interest Bearing Liabilities - 30 June 2010



Source: REIT annual reports and PKFCA Analysis

Interest Bearing Liabilities - 30 June 2009



Source: REIT annual reports and PKFCA Analysis

# Composition of Debt

In last year's "PKF REIT Monitor" we observed the trend in REITs to move away from bank debt as their only source of debt funding. Over the FY2010 this has continued to occur. The three main types of debt within the sector remain as bank debt, medium term rates and CMBS. However one of these, medium term notes, is growing at the expense of the other two forms of debt.

Medium term notes grew from 20% to 24% of total REIT debt. This longer term form of debt is currently very popular, though limited by the requirement to be rated for credit purposes by a reputable international rating agency. This fact has limited medium term notes to mainly the Big 8 REITs.

The very tight bank lending market, with its restrictive terms and conditions, has seen bank debt financing fall from 64% to 60%. Not so long ago bank debt accounted for 100% of the REIT sector's lending requirements. However, we see bank debt falling further over the coming year.

The third largest form of debt, CMBS has marginally fallen over the year, from 11% down to 10%. Again, we see further falls in the CMBS component of total debt given its expensive cost at present and the fact that the CMBS market is yet to recover from a near fatal blow dealt by the GFC.

We now review each of these three main forms of debt in greater detail, analysing trends over the 12 months to 30 June 2010.

## Bank Debt

- » Bank debt covers the traditional lending facilities such as secured senior debt loans, overdraft facilities and short term finance facilities.

- » There has been a large fall in the use of this form of debt; \$5.1 billion from \$48.5 billion in just 12 months. It does remain the dominant form of debt financing but banks are reluctant to lend and the often high margins associated with such lending has forced REITs into other sources of debt.
- » Centro Properties Group remained the REIT most exposed to bank debt with almost \$11.8 billion outstanding at 30 June 2010. This was 27% of the total bank debt held throughout the sector. Of course, that level of debt needs to be considered in light of the equally large investment property portfolio that this REIT owns.
- » An example of REITs' efforts (or need) to move away from bank debt as their main source of financing is the Goodman Group. This group has managed to reduce its bank debt exposure by almost \$1.78 billion from 30 June 2009, although not without cost, through a number of measures, including:
  - its \$1.28 billion institutional placement and a one for one non-renounceable entitlement offering during August and September 2009; and
  - a \$0.5 billion issue of three tranches of convertible preference securities to non-controlling unit holders made in October 2009.

## Medium Term Notes

This longer term form of debt financing remains the privilege of a small sub-sector of the REIT sector, mainly the Big 8.

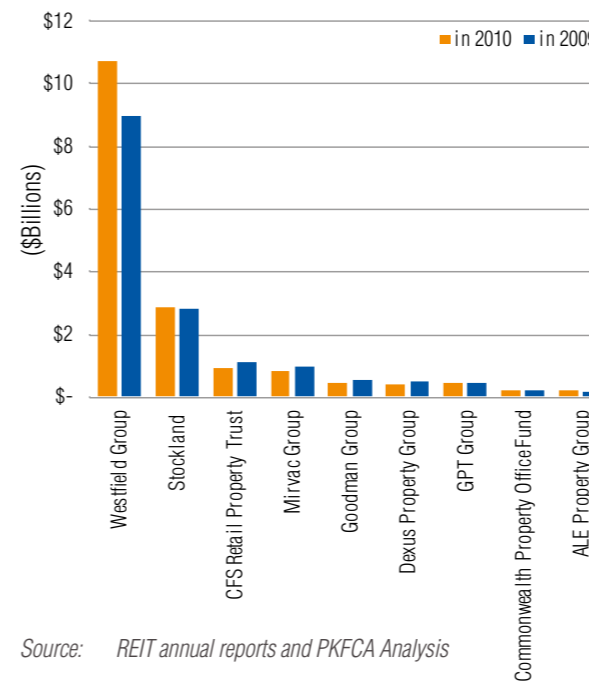
### REITs with medium term note liabilities

The REITs with medium term notes (and their exposure) at 30 June 2010 are as follows:

- » Westfield Group
  - \$10.7 billion (\$9.0 billion at 30 June 2009);
- » Stockland
  - \$2.8 billion (\$2.8 billion at 30 June 2009);
- » CFS Retail Property Trust
  - \$892 million (\$1.1 billion at 30 June 2009);
- » Mirvac Group
  - \$800 million (\$972 million at 30 June 2009);
- » Goodman Group
  - \$441 million (\$513 million at 30 June 2009);
- » Dexus Property Group
  - \$367 million (\$456 million at 30 June 2009);
- » GPT Group
  - \$434 million (\$436 million at 30 June 2009);
- » Commonwealth Property Office Fund
  - \$199 million (\$200 million at 30 June 2009); and
- » ALE Property Group
  - \$210 million (\$154 million at 30 June 2009).

The medium term note liabilities are graphically presented below:

Medium Term Notes at 30 June 2010 and 30 June 2009



Source: REIT annual reports and PKFCA Analysis

All of the Big 8 are included in the list of nine Australian REITs that hold medium term notes. This emphasises the sector's awareness of the importance of long term financing for REITs and proves again the vital role of medium term loans.

The foreign markets, particularly the U.S., provide funding for medium term notes at very competitive terms in the current market, given the reluctance of Australian banks to lend to REITs. Longer terms are also available in the U.S. for medium term notes, attracting the Big 8 REITs. In August 2009, Westfield Group successfully issued \$US 2 billion in long term notes into the U.S. market. Dexus Property Group also completed a \$US 300 million note issue in the U.S. in September 2009.

The local market is also opening up. In September 2010 the Mirvac Group issued a new \$200 million six year fixed medium term note in the Australian bond market. Company and lead managers were ANZ, Westpac and BNP Paribas for this new debt issuance.

## CMBS

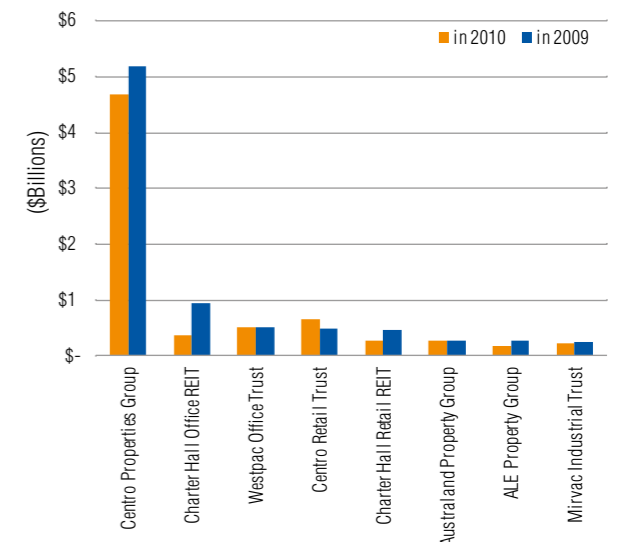
The REITs with CMBS and their exposure as at 30 June 2010 are as follows:

- » Centro Properties Group
  - \$4.7 billion (\$5.2 billion at 30 June 2009);
- » Charter Hall Office
  - \$365 million (\$935 million at 30 June 2009);

- » Westpac Office Trust
  - \$508 million (\$504 million at 30 June 2009);
- » Centro Retail Trust
  - \$654 million (\$482 million at 30 June 2009);
- » Charter Hall Retail REIT
  - \$265 million (\$450 million at 30 June 2009);
- » Australand Property Group
  - \$268 million (\$268 million at 30 June 2009);
- » ALE Property Group
  - \$179 million (\$260 million at 30 June 2009); and
- » Mirvac Industrial Trust
  - \$221 million (\$232 million at 30 June 2009).

These CMBS debt levels are graphically presented hereunder:

REITs with CMBS at 30 June 2010 and 30 June 2009



Source: REIT annual reports and PKFCA Analysis

The graph above demonstrates the precarious position of the CMBS market in REITs. Six of the eight REITs remaining with exposure to the CMBS market reduced that exposure. The largest mover was Charter Hall Office REIT, decreasing its exposure by \$570 million. Most REITs with CMBS debt are attempting to extricate themselves from what was a very attractive market pre GFC. It is possible that CMBS will live a second life, however we do not anticipate that this will occur within the next two years. The international CMBS market would need to recover significantly before it regained widespread acceptance in Australia. In the U.S. particularly, this is unlikely in the near term.

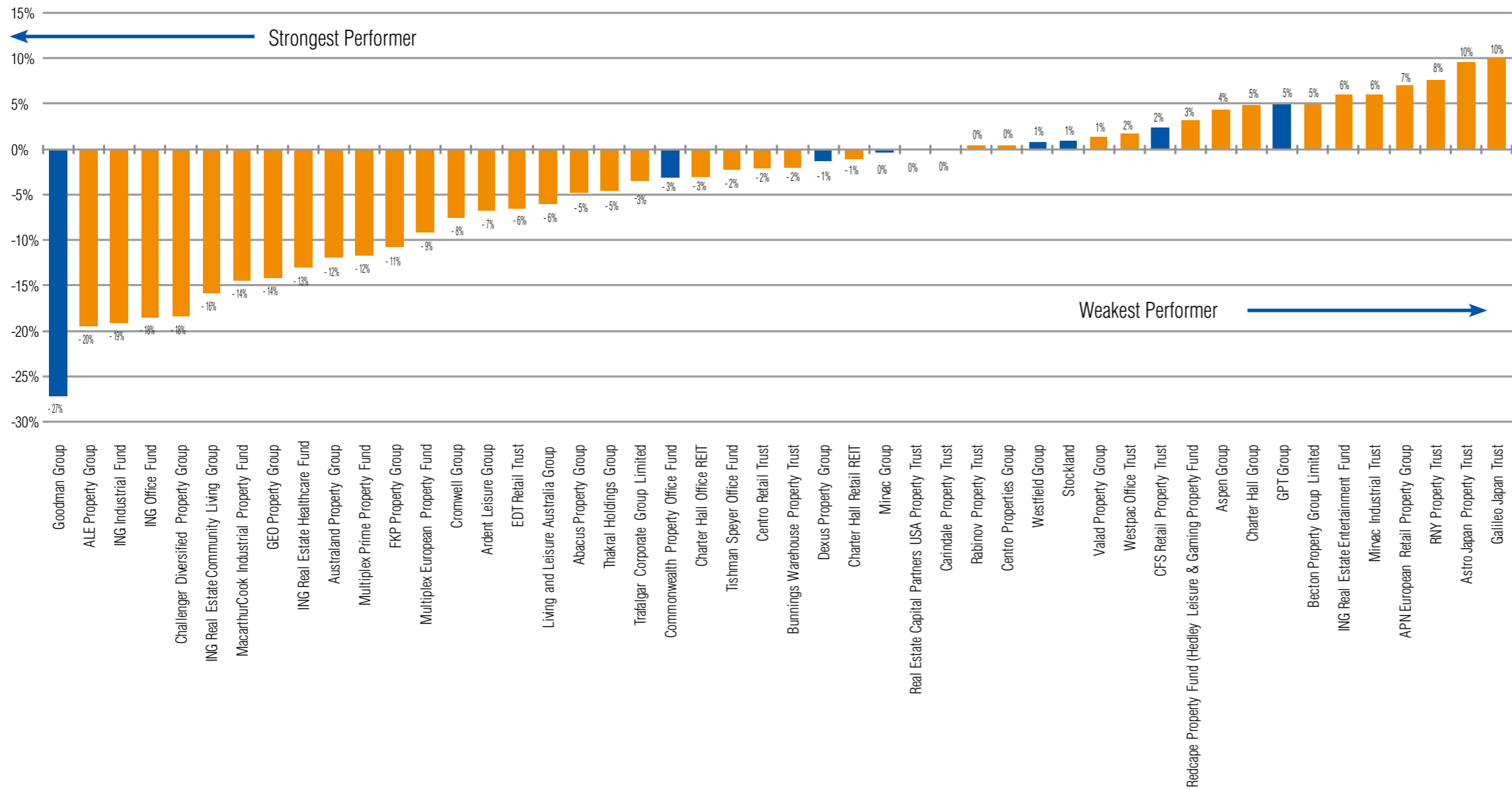
Apart from Westpac Office Trust, which has since been delisted, Centro Retail Trust was the only REIT to increase its exposure to CMBS, with a \$172 million increase over the FY2010. However, this was in less than ideal circumstances, given the financial stress that this group is currently under.

# Change in Gearing Levels

## Change in Gearing Levels as at 30 June 2010

The graph below discloses the REITs' change in gearing levels (debt / total assets) from 1 July 2009 to 30 June 2010. We have ranked these specifically to highlight the strongest and weakest performing in this category, assuming that in the current environment all REITs are seeking lower gearing levels and investors will reward such action.

### Absolute % Change in Gearing Levels – 2010 vs. 2009



■ Big 8 ■ Other REITs

Source: Company Annual Reports and Financials, PKFCA Analysis

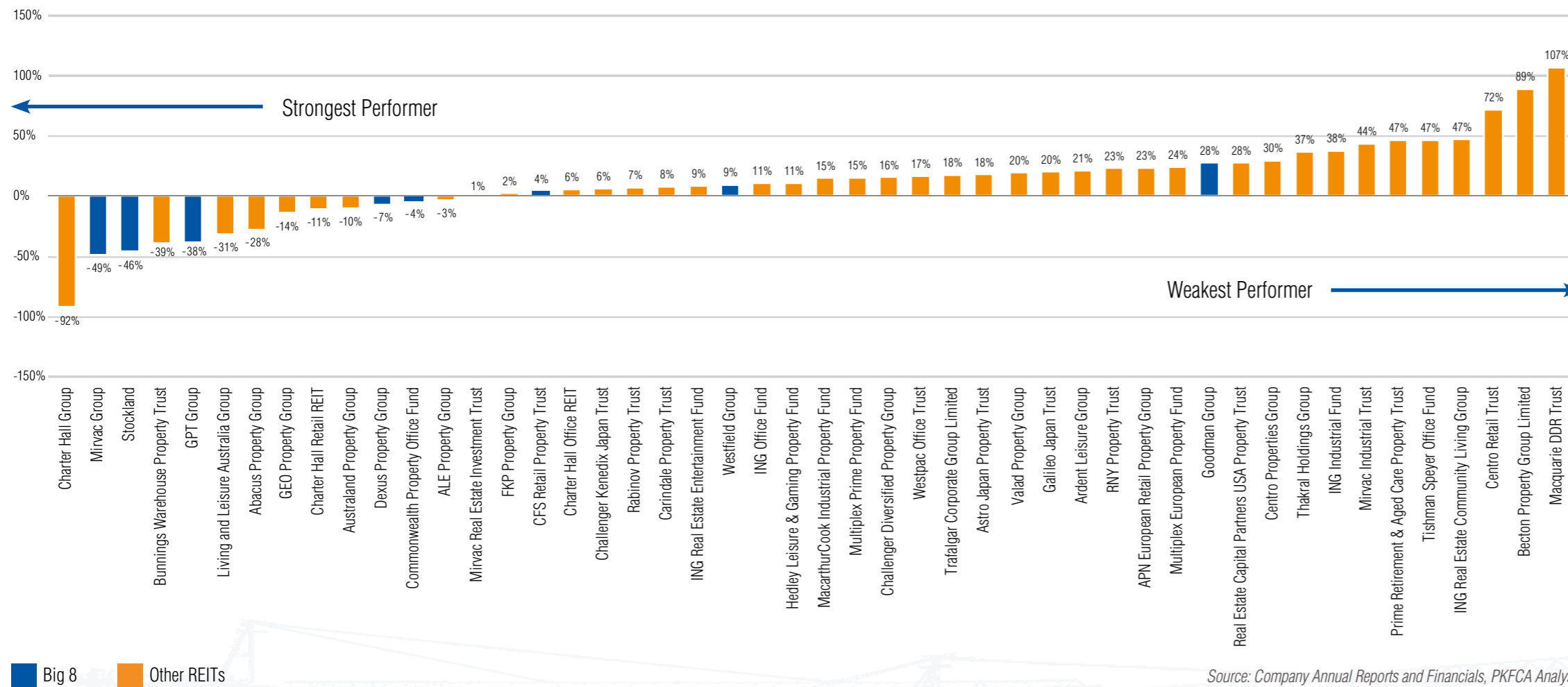


# Change in Gearing Levels

## Change in Gearing Levels as at 30 June 2009

The graph below discloses REITs' change in gearing levels last year, from 1 July 2008 to 30 June 2009.

Absolute % Change in Gearing Levels – 2009 vs. 2008



From the two preceding graphs it is obvious that a major turnaround occurred over the FY2010 compared to the FY2009. Over the previous year, most REITs saw their gearing level increase, notwithstanding efforts across the sector to reduce gearing levels. Conversely, in the FY2010, the majority of REITs were successful in reducing gearing.

The main differences between the FY2009 and FY2010 were two-fold:

1. Over the FY2009, REITs were attempting to sell assets but were simply unable to do so, even at depressed prices. In contrast, the FY2010 experienced some turnover in properties as the expectation gap in pricing between buyer and seller decreased. As properties were sold in the current year, proceeds were used to pay down debt levels, hence reducing gearing levels.
2. Even more importantly than the selling of assets, the huge falls in property values that occurred over the FY2009 did not recur in the FY2010. 2009 saw an unprecedented \$19 billion fall in property valuations over the 12 month period. In 2010, the fall was only a further \$2 billion across the sector.

Whereas in the FY2009 every single REIT saw their property portfolio fall in value when independently valued, FY2010, in contrast, reversed this trend. Eleven REITs recorded an increase in property values over the 12 months to 30 June 2010. Notable REITs among these were Westfield Group, FKP Property Group, CFS Retail Property Trust, Charter Hall Retail REIT and Ardent Leisure Group. The retail property sector seemed the most buoyant based on these increases in value.

The above two factors led to a fall in total sector average gearing as the following table depicts:

	30 June 2010	30 June 2009	30 June 2008
Average REIT Gearing	45%	47%	42%

Source: Company Annual Reports and Financials, PKFCA Analysis

# Change in Gearing Levels

The average fall in gearing was surprisingly low considering stabilising property values and successful sale of properties within several REITs. However, 2% down is a big step in the right direction. We predict that there will be an overall increase in fair value of REIT property portfolios over the year to 30 June 2011, which should provide a further, more significant fall in gearing in the coming year.

There is certainly evidence of banks pushing for debt repayment and fund manager activity trying to accommodate this. Over the two years to 30 June 2010, total net debt outstanding in the sector fell \$10 billion, from \$81 billion down to \$71 billion at 30 June 2010. \$6 billion of this was in the FY2009 with a further \$4 billion in the 2010 year. Given the difficulty in selling properties over this time, such a large reduction in debt is not such a bad effort by the REIT sector.

We list hereunder the 10 REITs with the highest levels of gearing, as well as the 10 lowest REITs in terms of gearing levels, as at 30 June 2010.

Highest Geared REITs		Gearing %
1.	Centro Properties Group	98%
2.	Redcape Property Fund	91%
3.	Mirvac Industrial Trust	82%
4.	Centro Retail Trust	80%
5.	Rabinov Property Trust	76%
6.	RNY Property Trust	71%
7.	Galileo Japan Trust	71%
8.	APN European Retail Property Group	70%
9.	Real Estate Capital Partners USA Trust	68%
10.	Tishman Speyer Office Fund	68%
Lowest Geared REITs		Gearing %
1.	Charter Hall Group	7%
2.	Carindale Property Trust	10%
3.	Stockland	14%
4.	ING Office Fund	15%
5.	Mirvac Group	16%
6.	FKP Property Group	19%
7.	Challenger Diversified Property Fund	21%
8.	Commonwealth Property Office Fund	22%
9.	GEO Property Group	22%
10.	Abacus Property Group	22%

When reviewing the tables of highly geared and lowly geared REITs, the differences present a compelling story of where listed REITs have been and where they are going.

## Attributes of highest 10 geared REITs:

- » Nine out of 10 have significant (or total) holdings in overseas property, in Europe, the U.S. and Japan.
- » At least two of the 10 are in serious financial distress and are continuing to trade only at the behest of their senior lenders.
- » The majority of the 10 are trading at severe discounts to their stated NTA with no immediate remedy in sight for this mismatch in pricing vs. asset value.

## Attributes of lowest 10 geared REITs:

- » Eight of the 10 REITs have either the vast majority or all of their property investments situated within Australia.
- » Three of the Big 8 REITs are in this group of lowest geared trusts. It is generally accepted that this group has “broken from the pack” and is in a better position to prosper post the GFC.
- » It is noteworthy that both FKP Property Group and GEO Property Group are in the top 10 lowest geared trusts. Both REITs were fighting for their lives at the height of the GFC but have managed to repair their balance sheets and are now looking forward to a brighter future.

The difference in gearing between the sector average and the Big 8 REIT average remains significant. At 25%, the gearing levels of the Big 8 are almost half that for the sector as a whole. There will come a time when more aggressive gearing levels will again be accepted and even promoted within the REIT sector, but in the current lending climate high gearing is definitely frowned upon by investors and analysts alike. The Big 8 have managed to reduce gearing to historically very low levels but the broader sector still faces a battle in reducing gearing levels, even below a 40% average.

## Look-through Gearing

In this year’s “PKF REIT Monitor” we have again analysed the concept of look-through gearing. This is viewed by many as the true gearing level of a REIT as it takes into account not just the gearing of the “mothership” REIT, but the gearing of all associated entities and joint venture investments. Often gearing in these “off balance sheet” investments is more aggressive than in the head REIT. Two main conclusions have emerged again this year from our analysis:

1. Many REITs do not openly report their look-through gearing level. This year only 23 REITs disclosed their level of look-through gearing. That is less than half of the REITs surveyed.
2. Of those that did report their look-through gearing, the level was significantly higher than the “basic” gearing of those same REITs.

For the 23 REITs that disclosed look-through gearing levels	Average Gearing 2010
Look-through gearing	47%
Basic gearing	39%

The following table summarises all REITs over the last three years where information was readily available on look-through gearing.

REIT	Look-through Gearing		
	2010	2009	2008
Centro Retail Trust	80%	77%	64%
APN European Retail Property Group	74%	68%	56%
ING Real Estate Community Living Group	73%	74%	57%
Tishman Speyer Office Fund	72%	75%	50%
EDT Retail Trust	69%	81%	57%
ING Real Estate Entertainment Fund	68%	62%	57%
ING Real Estate Healthcare Fund	52%	65%	64%
Cromwell Group	50%	55%	N/A
Thakral Holdings Group	49%	55%	40%
ING Industrial Fund	48%	62%	47%
Charter Hall Office REIT	45%	47%	45%
Charter Hall Retail REIT	43%	54%	50%
Australand Property Group	40%	41%	45%
Aspen Group	39%	N/A	N/A
Goodman Group	39%	N/A	49%
Westfield Group	37%	N/A	N/A
Charter Hall Group	37%	43%	44%
GPT Group	33%	N/A	47%
Dexus Property Group	30%	31%	33%
GEO Property Group	28%	48%	41%
Abacus Property Group	26%	33%	40%
ING Office Fund	23%	26%	35%
Mirvac Group	21%	23%	37%
Centro Properties Group	N/A	N/A	74%
FKP Property Group	N/A	40%	39%
Average	47%	53%	49%

With an 8% difference at 30 June 2010 between look-through gearing and basic gearing levels, it is evident that basic balance sheet gearing is not giving investors the full picture in terms of the financial risk of a REIT. Some fund managers argue that look-through gearing is not relevant. If a satellite property trust was heading towards receivership the “mothership” REIT would simply allow that trust to be wound up, even if that meant a fire sale. They argue that the satellite property trust has no legal tie back to the head REIT and should not be linked to the head REIT in terms of reported gearing.

The counter argument to the above is that the head REIT often invests significant amounts of equity in its associated property trusts. This is to demonstrate “alignment of interests” with the satellite funds of the head REIT manager and to protect against hostile takeover. Should that satellite property trust be allowed to fall into liquidation, the head REIT would see material loss in value of its investment.

Further, most listed REITs have built up a valuable intangible asset in terms of their name and reputation. Entities such as Stockland, Mirvac, Goodman and CFS are close to household names. Should a listed REIT allow a satellite property trust that carried its name to go under, it would cause significant damage to its name and reputation.

For these reasons, we argue that look-through gearing is a relevant measure of total debt risk, while not depreciating the importance of basic balance sheet gearing.

Both gearing measures, in our view, are required given the current landscape of the listed REIT sector.

Notwithstanding the above, we accept the valid criticism of headline look-through gearing numbers. Opponents to look-through disclosure point out that there are several different ways of calculating look-through gearing. Depending on associated entities that can be included or excluded, the headline number of look-through gearing can be materially different. At present, there is no accepted guideline or standard for the calculations of look-through gearing, so a straight comparison can be dangerous.

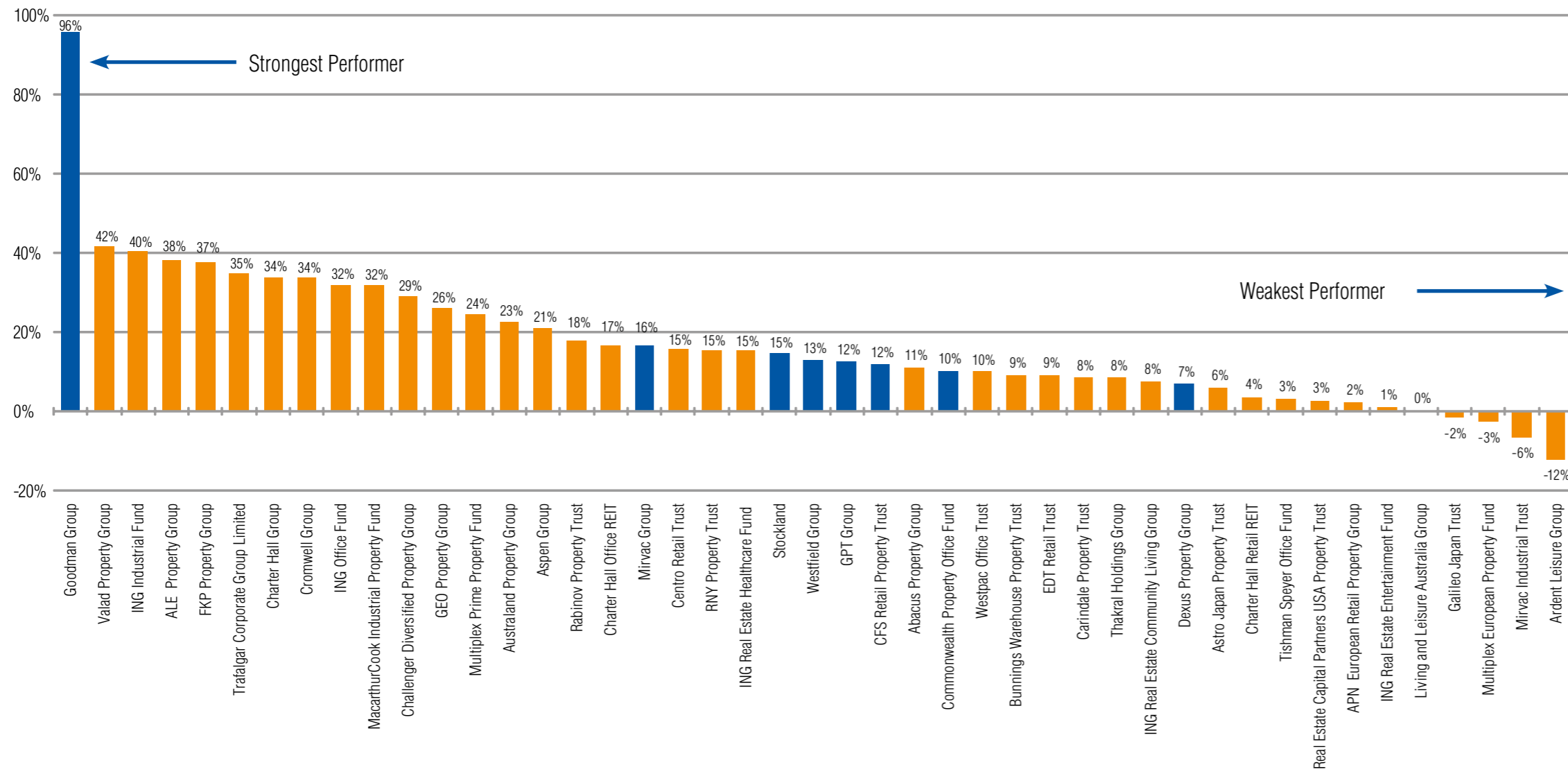
**In conclusion, the difference between basic and look-through gearing is now material across the sector and should not be simply ignored. However, there is a need for consistent calculation of this important metric.**

# Change in Premium / (Discount) to NTA

## Change in Premium / (Discount) to NTA as at 30 June 2010

The graph below depicts the increase or decrease in the gap between market price and NTA for each REIT over the year to 30 June 2010.

Absolute % Change in the Premium/(Discount) of Market Price to NTA to 30 June 2010



Big 8 Other REITs

Source: PKFCA Analysis

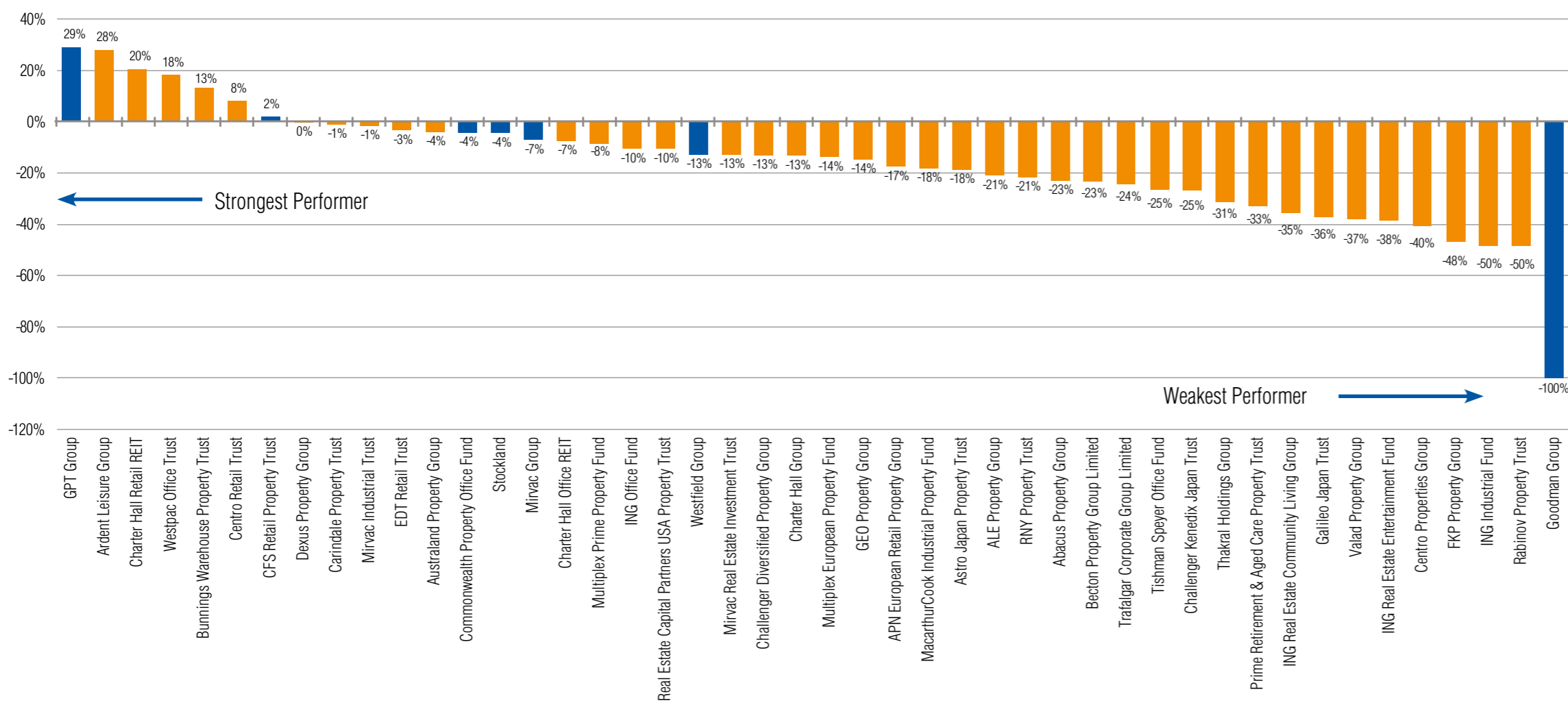


# Change in Premium / (Discount) to NTA

## Change in Premium / (Discount) to NTA as at 30 June 2009

The graph below depicts the increase or decrease in the gap between market price and NTA for each REIT over the year to 30 June 2009.

Absolute % Change in the Premium/(Discount) of Market Price to NTA to 30 June 2009



Big 8 Other REITs

Source: PKFCA Analysis

The two preceding graphs summarise the key metric of the difference between market price and NTA. Each graph depicts whether this gap has widened (further deteriorated) or lessened (strengthened) over each respective year.

The 2009 graph could not be more in contrast to the 2010 graph. Almost all REITs were "below the line" in 2009, demonstrating a deterioration in this measure. However, the 2010 graph shows all but four REITs are above the line, indicating an improvement, or closing of the gap between their market price and their NTA. In 2009, only seven REITs improved this metric, but in 2010, 40 REITs recorded an improvement.

While the above is good news in terms of improving ASX market price, it is worth noting that 81% of all REITs are still trading at a discount to their NTA at 30 June 2010. Of these, 45% are at significant discounts, in excess of 40% discounts to their NTA value.

The following table summarises the sector-wide average discount of market price to NTA over the last three financial year ends.

REIT	Discount to NTA		
	2010	2009	2008
Sector Average	(28)%	(54)%	(38)%

These three numbers provide a useful summary of how REITs were affected and then recovered from the GFC. At 30 June 2008, the GFC was nearing its peak in terms of detrimental effect on REITs. Between June 2008 and 2009 the GFC reached its peak, as demonstrated by the hefty 54% discount at 30 June 2009. Then a significant improvement was recorded up to 30 June 2010 as market pricing for REITs significantly recovered from record lows in pricing.

It was not just ASX pricing causing these movements. In the 2010 year, total investment property value for the sector only reduced by 4.5%. In the 2009 year however, the decrease was a massive 14% (or \$19 billion) in investment property value.

Given that a portion of the REIT market, the Big 8 particularly, has decreased debt and increased cash levels, the scene has now been set for M&A activity, as the strong takeover the struggling. As noted, there are still many REITs trading at very high discounts to their NTA.

# Change in Premium / (Discount) to NTA

In fact, such M&A activity has already commenced as demonstrated by the following takeover transactions during the FY2010.

Target	Acquirer
1. Aevum	Stockland
2. Challenger Kenedix Japan Trust	Challenger Life Company Ltd
3. MacarthurCook Industrial Property Fund	Commonwealth REIT
4. Mirvac REIT	Mirvac
5. Orchid Industrial Property Trust	Growthpoint
6. Westpac Office Trust	Mirvac

The above six transactions are potentially just the beginning of further rationalisation in the sector. Funding for takeovers is now more available, asset prices are bottoming out and ASX pricing is arguably at or beyond its low point post the GFC. All these key factors set the scene for more activity in REITs over the 2011 calendar year.

## Five **Strongest** Improvers in Price vs. NTA Metric

1. Goodman Group
2. Valad Property Group
3. ING Industrial Fund
4. ALE Property Group
5. FKP Property Group

## Five **Weakest** Performers with Deterioration in Price vs. NTA Metric

1. Ardent Leisure Group
2. Mirvac Industrial Trust
3. Multiplex European Property Fund
4. Galileo Japan Trust
5. Living and Leisure Australia Group

## Five REITs with Greatest Price Premium to NTA

- |                         |     |
|-------------------------|-----|
| 1. Goodman Group        | 35% |
| 2. Westfield Group      | 16% |
| 3. Ardent Leisure Group | 8%  |
| 4. Charter Hall Group   | 7%  |
| 5. Stockland            | 4%  |

## Five REITs with Greatest Price Discount to NTA

- |   |       |
|---|-------|
| 1. Galileo Japan Trust                    | (93%) |
| 2. APN European Retail Property Group     | (83%) |
| 3. ING Real Estate Entertainment Fund     | (81%) |
| 4. ING Real Estate Community Living Group | (80%) |
| 5. Multiplex Prime Property Fund          | (75%) |

The **common thread in the better performing REITs** is that most have **reduced their gearing** significantly by selling assets or capital raising. It is no surprise that most are stapled securities, as a large proportion of such entities' activity is not measured in terms of NTA value. Hence, for stapleds, a greater premium is normally recorded when taking ASX pricing, which in theory does reflect such additional business value.



# Appendices

## Appendix 1 - Definitions

Acronym	Definition
All Ordinaries	ASX All Ordinaries Index
ANZ	Australia and New Zealand Banking Group Limited
AREIT	Australian Real Estate Investment Trust
ASX	Australian Securities Exchange
ASX Property Index	S&P/ASX 200 Property Trust Index
ATO	Australian Taxation Office
BNZ	Bank of New Zealand
CBA	Commonwealth Bank of Australia
CGT	Capital gains tax
CMBS	Commercial Mortgage Backed Securities
COT	Continuity of ownership test
FY2008	12 months to 30 June 2008
FY2009	12 months to 30 June 2009
FY2010	12 months to 30 June 2010
GFC	Global Financial Crisis
ICR	Interest Cover Ratio. This figure, reported as a percentage, portrays the ability of a company to cover its finance costs with its earnings before interest and tax.
LVR	Loan to Value Ratio. This figure, reported as a percentage, prescribes the amount of the total loan that is covered by the value of the underlying asset, or in this case, property.
M&A	Mergers and acquisitions
Monitor	"PKF REIT Monitor"
N/A	Not available
NAB	National Australia Bank Limited
Net Debt	Interest bearing debt, less cash
NTA	Net tangible assets
PKFCA	PKF Corporate Advisory (East Coast) Pty Limited
RBA	Reserve Bank of Australia
REIT	Real Estate Investment Trust
Report	PKF's Australian REIT Report – "PKF REIT Monitor"
SBT	Same business test
The Sector	The "PKF REIT Monitor" REIT population
Trading Period	Period from 30 June 2009 to 30 June 2010
Westpac	Westpac Banking Corporation
YTD	Year to date

Source: PKFCA Analysis

## Appendix 2 - Population of 48 REITs

REIT
Abacus Property Group
ALE Property Group
APN European Retail Property Group
Ardent Leisure Group
Aspen Group
Astro Japan Property Trust
Australand Property Group
Becton Property Group Limited
Bunnings Warehouse Property Trust
Carindale Property Trust
Centro Properties Group
Centro Retail Trust
CFS Retail Property Trust
Challenger Diversified Property Group
Charter Hall Group
Charter Hall Office REIT (formerly known as Macquarie Office Trust)
Charter Hall Retail REIT (formerly known as Macquarie Countrywide Trust)
Commonwealth Property Office Fund
Cromwell Group
Dexus Property Group
EDT Retail Trust (formerly known as Macquarie DDR Trust)
FKP Property Group
Galileo Japan Trust
GEO Property Group

REIT
Goodman Group
GPT Group
ING Industrial Fund
ING Office Fund
ING Real Estate Community Living Group
ING Real Estate Entertainment Fund
ING Real Estate Healthcare Fund
Living and Leisure Australia Group
MacarthurCook Industrial Property Fund
Mirvac Group
Mirvac Industrial Trust
Multiplex European Property Fund
Multiplex Prime Property Fund
Rabinov Property Trust
Real Estate Capital Partners USA Property Trust
Redcape Property Fund (formerly known as Hedley Leisure & Gaming Property Fund)
RNY Property Trust
Stockland
Thakral Holdings Group
Tishman Speyer Office Fund
Trafalgar Corporate Group Limited
Valad Property Group
Westfield Group
Westpac Office Trust

The REIT population covered in this year's Monitor is 48, the same number as was included in last year's Monitor.

The PKF REIT Monitor 2010 (FY2010) REIT population has changed from the PKF REIT Monitor 2009/2010 (FY2009) as per the following:

### Exclusions

- » Challenger Kenedix Japan delisted following the implementation of the trust scheme between the Trust and Challenger Lift Company Limited.
- » Mirvac REIT delisted due to its takeover by Mirvac through a scheme of arrangement.
- » Voluntary Administrators had been appointed to Prime Retirement and Aged Care Property Trust.
- » Westpac Office Trust delisted following completion of the trust scheme of arrangement between the Trust and Mirvac Group (although post year end).

### Inclusions

- » Aspen Group;
- » Cromwell Group; and
- » ING Real Estate Healthcare Fund.

The FY2009 and FY2010 graphs within this Monitor reflect these changes to the populations.

## Appendix 3 - Detailed Criteria and Methodology and Sources of Information

### Selected REITs

The Monitor is based on the analysis of mainstream REITs which are listed on the ASX. PKF has excluded REITs that, in their opinion, are not mainstream listed REITs, so cannot be directly comparable to other REITs. PKF's definition of REITs also includes some other listed property groups such as FKP and Australand Property Groups, with many similar characteristics to listed REITs.

### Source of Information within Financials

Our analysis is predominantly based on publicly available information as set out in the Annual Reports or half year reports for the REITs (collectively referred to as the Accounts) as at 30 June 2010 and 30 June 2009.

Certain information required for us to undertake our analysis was not made available in the respective REITs' Accounts. In such circumstances, we made contact with the individual REITs in order to obtain such information. Accordingly, certain aspects of our analysis, such as interest bearing liabilities and maturity breakdown for certain REITs, will not be able to be reproduced from the Accounts.

We have not updated the financial figures for any information publicly released or provided to us after the 30 June 2010 and 30 June 2009 Statement of Financial Position. However, we have updated our commentary to be current as at the time of going to print.

All share and unit market pricing data for the respective REITs is sourced from Bloomberg.

In preparing this Monitor, PKF had access to and relied upon the following principal sources of information:

- » Listed REITs' annual reports and/or half year reports;
- » Listed REITs' investor presentations;
- » Listed REITs' websites;
- » ASX announcements;
- » Bloomberg;
- » Capital IQ;
- » RBA – Reconnecting Corporate Australia with Frozen Credit Markets; and
- » Other publicly available data.

### Analysis

The analysis we have conducted on the REIT sector is broken up into four criteria:

#### Interest bearing liabilities maturity

Based on the respective REITs' Accounts, we have segregated interest bearing liabilities maturity into current and non-current.

Where possible and full disclosure is readily made available in the respective REITs' Accounts, we have included the current and non-current interest bearing liabilities accounted for under 'Investments accounted for using the equity method'.

As highlighted above under "Source of Information within Financials", in situations whereby certain information required for us to undertake our analysis was not made available in the respective REITs' Accounts, we contacted the individual REITs in order to obtain such information. Accordingly, certain aspects of our analysis, such as interest bearing liabilities maturity breakdown for certain REITs, will not be able to be reproduced from the Accounts.

#### The composition of interest bearing liabilities

Based on the respective REITs' Accounts, we have segregated interest bearing liabilities into the different types/classes of debt.

Amongst some of the types/classes of debt noted are bank debt, CMBS, medium term notes, senior secured notes, finance leases, preference shares, convertible notes, bonds, property linked notes, related party loans, cash advances, foreign private placement and others.

#### Gearing levels

Calculated by dividing net interest bearing debt (less cash and cash equivalents) by total tangible assets.

In deriving the total interest bearing liabilities and cash and cash equivalents, where possible and full disclosure is readily made available in the respective REITs' Accounts, we have included the total interest bearing liabilities and cash and cash equivalents amount accounted for under 'Investment accounted for using the equity method'.

#### Premium/(discount) to NTA of the selected REITs

Calculated by subtracting the unit price at reporting date from NTA per unit at that same date, then dividing the result by the NTA per unit.

We have excluded outliers, which are defined as recording a change of greater than 100%, either positive or negative in their Premium / (Discount) to NTA.

Further information of each criterion is provided in the respective section of our Monitor.

#### Data collection

The data we have compiled and collated for our analysis from the Accounts or obtained from the respective REITs is as follows:

- » interest bearing liabilities as per the Statement of Financial Position;
- » any interest bearing liabilities which are captured in 'Investment accounted for using the equity method' (if applicable and/or available);
- » the breakdown of interest bearing liabilities as per the notes of the Accounts. Please note that we have, where possible, broken down the interest bearing liabilities relating to any Joint Venture by type;

- » look-through gearing;
- » cash and cash equivalents as per the Statement of Financial Position;
- » any cash which is captured in 'Investment accounted for using the equity method' (if applicable and/or available);
- » total assets as per the Statement of Financial Position;
- » intangible assets as per the Statement of Financial Position;
- » any intangible assets which are captured in 'Investment accounted for using the equity method' (if applicable and/or available);
- » investment properties as per the Statement of Financial Position;
- » any investment properties which are captured in 'Investment accounted for using the equity method' (if applicable and/or available); and
- » fair value change in investment properties.

**Each data label presented on the graphs within the "PKF REIT Monitor 2010" has been rounded to the nearest whole percentile.**

Based on the respective REITs' Accounts, we have segregated interest bearing liabilities into the different types/classes of debt.





## Appendix 4 - Impact of Equity Accounted Investments on the REIT Sector

REIT	Balance Date
Abacus Property Group	30 June 2010
ALE Property Group	30 June 2010
APN European Retail Property Group	30 June 2010
Ardent Leisure Group	30 June 2010
Aspen Group	30 June 2010
Astro Japan Property Trust	30 June 2010
Australand Property Group	30 June 2010
Becton Property Group Limited	30 June 2010
Bunnings Warehouse Property Trust	30 June 2010
Carindale Property Trust	30 June 2010
Centro Properties Group	30 June 2010
Centro Retail Trust	30 June 2010
CFS Retail Property Trust	30 June 2010
Challenger Diversified Property Group	30 June 2010
Charter Hall Group	30 June 2010
Charter Hall Office REIT (formerly known as Macquarie Office Trust)	30 June 2010
Charter Hall Retail REIT (formerly known as Macquarie Countrywide Trust)	30 June 2010
Commonwealth Property Office Fund	30 June 2010
Cromwell Group	30 June 2010
Dexus Property Group	30 June 2010
EDT Retail Trust (formerly known as Macquarie DDR Trust)	30 June 2010
FKP Property Group	30 June 2010
Galileo Japan Trust	30 June 2010
GEO Property Group	30 June 2010
Goodman Group	30 June 2010
GPT Group	30 June 2010
ING Industrial Fund	30 June 2010
ING Office Fund	30 June 2010
ING Real Estate Community Living Group	30 June 2010
ING Real Estate Entertainment Fund	30 June 2010
ING Real Estate Healthcare Fund	30 June 2010
Living and Leisure Australia Group	30 June 2010
MacarthurCook Industrial Property Fund	30 June 2010
Mirvac Group	30 June 2010

REIT	Balance Date
Mirvac Industrial Trust	30 June 2010
Multiplex European Property Fund	30 June 2010
Multiplex Prime Property Fund	30 June 2010
Rabinov Property Trust	30 June 2010
Real Estate Capital Partners USA Property Trust	30 June 2010
Redcape Property Fund (formerly known as Hedley Leisure & Gaming Property Fund)	30 June 2010
RNY Property Trust	30 June 2010
Stockland	30 June 2010
Thakral Holdings Group	30 June 2010
Tishman Speyer Office Fund	30 June 2010
Trafalgar Corporate Group Limited	30 June 2010
Valad Property Group	30 June 2010
Westfield Group	30 June 2010
Westpac Office Trust	30 June 2010

Source: REIT Annual Reports/Financials

-  This indicates the REITs that had a **material** level of Equity Accounted Investments/Investments in Associates (greater than 10% of Total Assets as per the Statement of Financial Position).
-  This indicates the REITs that had an **immaterial** level of Equity Accounted Investments/Investments in Associates (less than 10% of Total Assets as per the Statement of Financial Position).

Whether material or not, we generally found that the levels of disclosure around debt profiles and risk were still lacking in the majority of cases, notwithstanding that the REITs may be AIFRS compliant.

## Appendix 5 - About PKF

PKF is a leading Australian chartered accounting and business advisory firm with seven practices working out of 11 capital city and regional offices, located across Australia. Nationally, PKF has almost 80 Partners and 600 staff members.

Together, our Brisbane, Melbourne and New South Wales offices form the PKF East Coast Practice and are able to provide our clients with seamless cross-border services and resources. We have an expert and experienced team dedicated to providing services to the Property and Construction industry, with Partners specialising in services to the REIT sector. Since October 2009, we have increased our differential investment into the REIT sector and now boast a 'virtual PKF REIT business unit' covering all accounting and business advisory services, headed by Partner Ed Psaltis, who has and will devote 100% of his time to serving just the REIT sector. Our comprehensive range of services include:

- » Audit & Assurance;
- » Business Risk Solutions;
- » Corporate Advisory
  - Valuation
  - Due Diligence
  - Capital Raisings
  - M&A
  - Independent Reports;
- » Corporate Recovery;
- » Corporate Secretarial;
- » Enterprise Advisory;
- » Financial Planning;
- » Management Consulting;
- » Litigation Support;
- » Organisation Development;
- » Outsourcing;
- » Succession Management;
- » Superannuation Consulting; and
- » Taxation Consulting.

### REIT sector transactions where members of the PKF REIT business unit (either with PKF or in previous roles) have been lead independent advisers, include:

- » Merger of Armstrong Jones Industrial fund with Prime Industrial Property Trust;
- » Merger of Armstrong Jones Office Trust with Prime Credit Property Trust;
- » Merger of Tyndall Property Trust with Meridian Investment Trust;
- » The move by Macquarie stable of Listed Property Trusts to performance based management fees (the first group in the Sector to do so);
- » Acquisition of Darling Park Trust by AMP Office and GPT;
- » Hostile takeover offers by Stockland and Mirvac LPTs for the Advance Property Trust;
- » Merger of Macquarie Goodman Trust with the Macquarie Industrial Fund;
- » Merger of the Penrith Panthers property portfolio with ING Leisure;
- » Acquisition of C.T. Retail Investment Trust by Tyndall Property Trust;
- » Takeover offer by Babcock and Brown for MTM Entertainment Trust;
- » Takeover by scheme of arrangement of Delfin Ltd by Lend Lease;
- » Sale of 2 Park Street to Macquarie Office Trust and GPT;
- » Acquisition of CFS Diversified Trust by Commonwealth Office Fund and Gandel Retail Trust, including the hostile takeover offer mid transaction by Mirvac Group;
- » Sale of Grosvenor Place into the Commonwealth Property Office Fund;
- » Takeover of Forest Place Group by FKP Property Group;
- » Acquisition by Australand of one additional Wholesale Property Trust;
- » Four way stapling merger of unlisted property trusts managed by James Fielding Group;
- » Takeover offer from Lend Lease for the GPT Split Trust;
- » Restructure into the current listed MFS Group Ltd;
- » MFS Diversified Trust Preference Equity Issue;
- » Acquisition by Australand of two additional wholesale property trusts;
- » Merger of listed Abacus Property Group with various related companies and trusts;
- » Internalisations, staplings and listings (as applicable) in the listed market:

- Homemaker Retail Property Trust (September 2000);
  - Westpac Office Trust – now Investa (November 2000);
  - Valad Property Group (October 2002);
  - Australand Holdings Ltd (September 2003);
  - MFS Hotel Property Trust (April 2004);
  - MFS Leveraged Investments Trust (April 2004);
  - FKP Property Group (September 2004);
  - Charter Hall Group (May 2005); and
  - Becton Property Group (September 2006);
- » Stapling of MFS Diversified Trust to three related unlisted trusts;
  - » Purchase of Victorian ski fields by MFS Living and Leisure Trust;
  - » Stapling of Queen St Property Trust to Macquarie Direct Property Fund;
  - » Restructure of Becton Property Group;
  - » Four way stapling of unlisted office property trusts managed by Investa Property Group;
  - » Restructure of the Pacific First Mortgage Fund; and
  - » Acquisition of MacarthurCook Industrial Property Fund by Commonwealth REIT.

Members of the PKF REIT business unit have also been actively involved in the unlisted property trust and syndicate market, again at the forefront of developments in that market, providing Independent Accountant's Reports, Independent Expert Reports, Valuations, Due Diligence and other advisory services to the following groups:

- » Abacus Property Group;
- » AMP Capital Investors;
- » Balmoral Corporate Ltd;
- » Challenger Property;
- » Century Funds Management;
- » Colonial First State Property Funds Management Ltd;
- » Domaine Property Group;
- » Eureka Funds Management Ltd;
- » Investa Property Group;
- » Lachlan Property;
- » Macquarie Direct Property;
- » Macquarie Goodman Group;
- » Mariner Property – now Real Estate Capital Partners;
- » Purchase of 5 star landmark hotels in several different states and territories within Australia;
- » Tankstream Capital; and
- » Walter Construction Group.

## Appendix 6 - Disclaimer

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