

The money tree begins to wilt amid the financial heat

FOR five years they were proverbial money trees for investors, generating an average 18.4 per cent annual return.

However, since becoming perhaps the biggest victims of the global credit collapse, smart investors are giving the previously in-vogue Australian Real Estate Investment Trusts a wide berth.

And with right reason, leading analysts have claimed.

In a report released last week, Wise Owl Equities warned their clients from dipping their toes back into the A-REITs market, likening it to a minefield.

The battered real estate investment sector has lost more than 65 per cent of its combined value from its highs of late 2007, compared to a 52 per cent loss for the wider market.

At the centre of the dramatic sell-down was overly leveraged stocks such as Centro Property Group (-99.5 per cent), GPT By ANDREW CARSWELL

Group (-78 per cent), and Valad Property Group (-97.3 per cent). They all failed to roll-over expiring debt commitments when credit became harder to nail down than Christopher Skase.

"The sector's fall is ultimately a vote of no confidence in the business models of many of the sector's member companies," Wise Owl said.

"A real 'shake-up' has been occurring with most A-REIT managers being delivered a harsh lesson over the past 12 months.

"Investors have become more critical, calling for debt levels to be reduced and closely examining offshore portfolios."

It is back to the drawing board, the stock analysis company believes, but certainly not a time for flagrant reinvestment in the sector despite share prices being obliterated.

But there are several diamonds in the rough to be discovered with careful digging, analysts believe.

In its report, Wise Owl suggested three boxes need to be ticked before investors threw their hard-earned into a real

estate investment trust.

First, are the dividends sustainable and not funded through debt?

On 2008 figures, that question wipes out three-quarters of the 20-odd A-REITs on the S&P/ASX200, given that only five companies funded their last dividend payment out of operating cash flow.

"High dividends are clearly not the sole criteria to be used when investing in an A-REIT, as the sustainability of distributions is also an equally, if not more important, issue," Wise Owl analysts said.

Secondly, is the company's debt comfortably serviced?

The average A-REIT debt-to-equity ratio this year is 62 per cent, significantly higher than all other sectors.

Finally, does the company have strong capital growth prospects?

"It is during downturns such as these that it can pay off to identify companies that may emerge bigger and better in the long run," Wise Owl says.

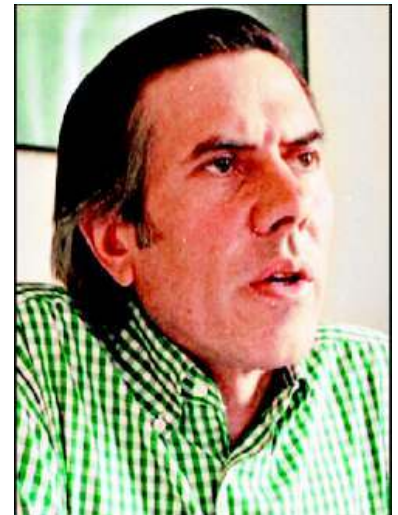
Taking into account those three criteria, the stock analysts could only find four listed A-REITs that satisfy their risk profile.

They tipped Bunnings Warehouse Property Trust (BWP), Dexus Property Group (DXS), ING Industrial Fund (IIF) and Macquarie Countrywide Trust (MCW).

But the choices did come with a warning.

"We insert a note of caution here in regards to the operating cash flow findings," Wise Owl said.

"Three of the standout companies only just managed to pay dividends from cash flows. This is an ongoing concern and the slim margins evident may come under pressure in the foreseeable future, considering challenging market conditions."



Tricky: Former tycoon Christopher Skase



Falls: A-REITs are no longer a sure thing