FINANCIAL STANDARD GUIDE TO

Property in portfolio construction

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Contents

FINANCIAL STANDARD.

Managing Editor
Jamie Williamson

Writer
Anthony O'Brien

Design and Production
Shauna Milani

Director of Media and Publisher
Michelle Baltazar

Managing Director
Alison Mintzer

Financial Standard
Level 7, 55 Clarence Street,
Sydney NSW 2000

T + 61 2 8234 7500
E info@financialstandard.com.au

www.financialstandard.com.au

Industry snapshot

Australians love property. Two in three (66%) households own their own home (with or without a mortgage)[1], and a further 2.2 million adults back this up with an investment property[2].

It makes real estate one of the nation's most sought-after asset classes, and with little wonder. Total household wealth in Australia is valued at $15.3 trillion, of which land and dwellings accounts for $10.5 billion – almost 70% of overall household wealth[3].

Beyond residential property, Australia also has a thriving commercial property sector. Research shows that many investors, both domestic and global, are keen to explore opportunities within this asset class.

For many retail investors however, commercial property can seem like an elusive asset class – too expensive to invest in directly, and too unfamiliar to access indirectly.

However, part of the appeal of commercial property in portfolio construction is that, on the contrary, it is an asset class that can be accessed in a variety of ways – quite literally with an option to suit every investor.

Furthermore, investors have access to a diverse array of real estate investment options, varying in risk profile and sub-sector exposure.

Today, investments can be customised to align with specific portfolio goals and parameters.

This *Financial Standard Guide to Property in Portfolio Construction* takes a closer look at what's available in this asset class, what to weigh up – and most importantly, how ordinary investors can grow their long-term wealth through commercial property.

1. The survey of income and housing, Australian Bureau of Statistics, May 2022
2. Taxation statistics 2019-20, Federal Government
3. Australian National Accounts: Finance and Wealth, September 2023

A core component in a portfolio

Like residential property, commercial property is typically regarded as a mid to long term investment. While it holds broad appeal to a wide cross-section of investors, it is critical to be aware of the pros and cons of investing in commercial property.

The advantages of commercial property

Adding commercial property to a diversified investment portfolio has the potential to deliver valuable advantages, including:

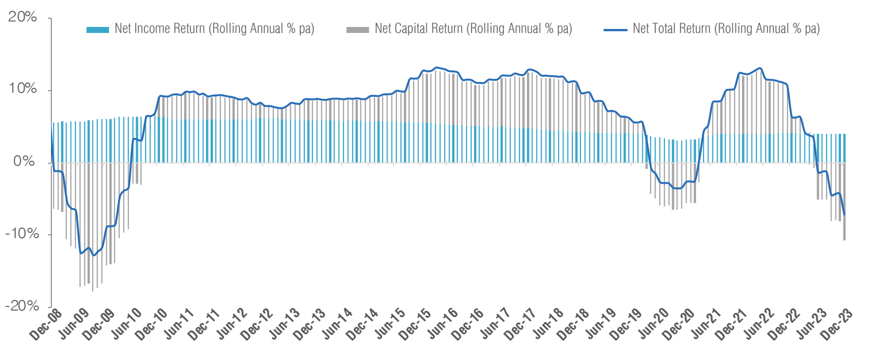
Low volatility

Commercial property is considered a less volatile asset class than other investment options, such as equities. In this sense, it can form a key long term component of a well-balanced investment portfolio, often acting as ballast for the broader portfolio.

High yields and regular returns

The rent returns can be extremely attractive both in terms of yield (which is typically far higher when compared to residential property) and as a source of regular, passive income. Indeed, according to Charter Hall Research approximately 70-80% of the total return from core real estate comes from current income generated through rental payments.

Figure 1. Long term unlisted property income and capital returns



Source: MSCI, Charter Hall Research (4Q23)

A core component in a portfolio

Commercial property funds generally distribute to investors either monthly or quarterly, potentially making this asset class suitable for investors such as retirees seeking passive income.

A hedge against inflation

In the long run, real estate may offer a degree of protection against inflation due to the rental streams derived from contractual lease payments. These leases frequently incorporate adjustments for external market conditions, including price increases.

The potential for capital growth

Australia's commercial property is not just attractive to domestic investors. The ANREV 2024 Investment Intentions Survey[4] indicates that Sydney and Melbourne, considered gateway cities, are among the top three investment destinations for institutional investors in the Asia Pacific region. Sydney is in second place (behind Tokyo and equal to Osaka), with 70% of investors intending to invest followed by Melbourne in third place (67%). This appeal, coupled with population growth, Australia's economic strength and a shortfall in new commercial developments nationally, will help to support capital growth across commercial property markets.

Portfolio diversification

The ASX's 2023 Australian Investor Study[5] indicates that more Australians are investing beyond their home and superannuation. However, portfolio diversification remains a sticking point, with the percentage of investors who believe they have a diversified portfolio falling from 54% to 44% since 2020. Commercial property can bring valuable diversification to a diversified investment portfolio, helping to reduce risk and smooth out volatility.

4. ANREV Investment Intentions Survey 2024 Asia Pacific
5. Australian Investor Study, ASX, 2023

The integration process

Investors can typically select three ways to access commercial property markets in Australia:

Direct ownership

An investor can purchase commercial property either in their own name or through a self-managed superannuation fund (SMSF). While this gives an investor absolute control of the asset, there can be downsides to this approach.

Most notably, buying commercial property calls for a significant capital outlay, meaning retail investors may only have the means to own one property, thereby concentrating risk by both asset and income rather than diversifying. In addition, investors may need to borrow to fund their asset, which brings the additional need to manage the loan as well as the asset.

Investing in A-REITs

The ASX provides access to a wide range of Australian real estate investment trusts (A-REITs) across multiple property segments. As a listed asset, A-REITs can have the advantage of liquidity. The downside is that like all listed assets, A-REITs are highly correlated to sharemarket movements.

Investing in an unlisted property fund

Unlisted funds can often be accessed by contacting the fund manager directly. While these funds may not have the liquidity advantages of A-REITs they can often give investors greater opportunities to finetune their market exposure by opting for a fund that focuses on a particular sector (such as industrial property and logistics) or geographic area that may complement, or fill a gap in, the investor's broader portfolio.

The integration process

The case for managed investments

Investing in property via a managed fund – be it listed or unlisted, brings a number of upsides for investors. Broadly speaking these involve:

1. **Diversity** – both listed and unlisted property funds can combine multiple assets into a single investment option, giving investors further diversity.
2. **Accessibility** – the biggest drawcard of property funds and trusts is that by pooling funds from multiple investors, they have significant purchasing power, offering investors access to institutional-grade properties, often with ASX-listed tenants.
3. **The potential for favourable tax treatment** – property funds may offer a tax-deferred income component to investors. This can occur when deductions for items such as depreciation leave funds with distributable income that is higher than taxable income.
4. **Expertise** – A-REITs and unlisted property funds benefit from the expertise of the fund's management team to source potential deals, and exhaustive processes to decide whether a property is right to purchase, develop or leave.
5. **Simplicity** – a property fund removes the burden of purchasing decisions, finding tenants, and organising maintenance – all of which require expertise.

Core and non-core investment solutions

Property investment can be segmented based on both property type and investment style. The major or traditional property types include office buildings, apartments, retail centres, and industrial and logistics properties, each having various subtypes.

Some investors might consider properties driven by the need for social infrastructure, such as childcare centres, health and education facilities and buildings that cater for government agencies. The property portfolio selection depends on the fund manager.

Another segmentation criterion is investment style, where "core" properties are considered the safest investments, typically offering relatively modest rates of return.

Typically, exposure to core real estate is achieved through portfolios comprising directly owned assets, such as separate accounts, or through commingled funds, usually of the open-ended variety.

A core-oriented portfolio aims to generate returns falling within the range of those yielded by stocks and bonds. In contrast, "non-core" investments prioritise capital appreciation over current income. Traditionally, non-core investments have been categorised as "value added" and "opportunistic," with some overlap between these classifications. Such investments may involve non-traditional property types or properties associated with development, redevelopment, or leasing risks.

Non-core strategies encompass asset, portfolio, and operating company investments that carry substantial financial leverage (exceeding 50%) and demand specialised acquisition or management expertise to boost their value.

The execution of a non-core real estate portfolio typically involves investments in closed-end private equity-style structures.

A core portfolio should prioritise property types, operating assets (with at least 80% occupancy)[6], and maintain limited financial leverage (less than 40% of total capital).

6. *Structuring a private real estate portfolio*, Russell Investments, April 2011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Open-ended versus close-ended

Investors in unlisted property funds can essentially select from two types of funds: open-ended and close-ended. We take a deep dive into both – with tips on how to select a fund.

Evergreen funds – ideal for core allocation

Open-ended funds, also known as 'evergreen' funds, have no set termination date. The fund can raise or repay capital on an ongoing basis. This creates greater flexibility and allows the fund to focus on long term capital appreciation for investors.

Similarly, without a fixed end date, evergreen funds give investors the opportunity to take a longer term outlook.

For this reason, evergreen funds may form a core real estate holding within an investor's diversified investment portfolio.

Vintage funds – prospects for a tactical play

Close-ended, or 'vintage' investment funds, are run for a specific term, typically around five years, with the 'vintage' referring to the date the fund was established.

The close-ended nature of a vintage fund means capital is often returned when a property is sold, giving unitholders the potential to access a capital gain.

The appeal of a vintage fund is that investors know how long their capital will be invested for. This in turn allows investors to plan their cash flow needs.

A vintage fund can play a useful role as a satellite investment supporting the evergreen fund(s) core of a commercial property portfolio.

Listed versus unlisted funds

The choice for investors seeking to add commercial property to the portfolio can come down to listed A-REITs or unlisted property funds, trusts or syndicates. Of course, the choice is not mutually exclusive, but there are aspects to weigh up.

Unlisted property funds – an 'alternative' asset

There is no universal definition of 'alternative' investments though typically, it covers anything that doesn't fall into the traditional categories of market-traded shares, bonds and cash.

This makes alternatives a very broad asset class, however the common thread is that by virtue of being unlisted, alternative investments are often less liquid than their listed counterparts.

In the property market, 'alternatives' encompasses unlisted property funds, which have been available to retail investors for many years.

Let's take a look at some of the things to consider when deciding portfolio allocations to listed and unlisted property.

Listed property funds – A-REITs[7]

Suitable for:

- A more flexible investment, with no minimum term
- Those looking to diversify their portfolio
- Solid long term performance and dividend yield

For investors, Australian REITs provide some of the highest quality real estate in Australia with the added benefit of a deeply liquid market.

Australia has a substantial A-REIT market, worth around $141 billion[8]. However, the sector is relatively concentrated: The S&P/ASX 200 A-REIT index contains just 21 constituents.

That said, the index has notched up annual returns averaging 8.42% per annum over the last 10 years though past returns are no guide for the future[8].

As a recent BDO report[9] notes, REITs are typically divided into industrial and logistics, office, retail, and diversified sub-sectors. However, the alternative real estate sub-sector, consisting of non-traditional forms of real estate (such as

7. New to investing, Charter Hall
8. S&P Dow Jones Indices, February 2024
9. A-REIT Survey 2023, BDO

data centres, student accommodation, petrol stations, holiday parks, childcare centres, and build-to-rent (BTR)), has risen in popularity. The alternative sub-sector has also excelled compared to more traditional assets in the past three years, although this is again not an indicator of future performance.

A small number of A-REIT providers also offer exposure to emerging property asset classes such as manufactured housing, seniors living and affordable rental accommodation.

Unlisted direct property funds[7]

Suitable for:
- Private investors
- Finding opportunities outside the main markets
- Investors looking for relative stability in their long-term returns

Investment in unlisted direct property funds can form an important part of a diversified portfolio, with the potential for an attractive income return and the possibility of capital growth over the medium to long term.

These funds are unlisted, meaning they are not listed on the ASX. While unlisted funds may offer less volatility than other asset classes, they may carry additional risks including the potential to be less liquid. This makes it critical for investors to carefully read the product disclosure statement (PDS) and target market determination (TMD), which will explain the risks in detail and the recommended holding period.

A key difference between listed and unlisted funds can be the minimum capital required to invest. The minimum investment differs widely between unlisted funds though it can be upwards of $5000. Nonetheless, this is far lower than the typical deposit needed for a commercial property venture.

One advantage of unlisted funds is the opportunity they give investors to be selective about the underlying assets. A fund may hold a single property, or several, spanning different sectors and locations. This allows investors to cherry pick funds in line with their personal views on the commercial market or to fill gaps within their current commercial property portfolio.

Similarly, unlisted property funds usually spell out the anticipated yield and timing of distributions investors can expect to earn. This too can help investors mix and match funds on the basis of personal need.

Five golden rules in fund selection

There are five golden rules on how to select a fund, with the choice of fund manager just as important as the fund itself.

1. Understand the fundamentals

The world of commercial property – and by extension, property funds – can appear to be jargon-heavy. Terms such as WALE (weighted average lease expiry) or NLA (net lettable area) can be confusing.

But it is worth understanding the terminology (see Glossary) and the market a fund invests in.

2. Analyse the risks

All investments carry risks. Read the PDS and TMD of any property fund you are considering. Know the risks of the property class, and of the particular fund.

All open and unlisted funds should be backed by reports from independent research houses – these reports are worth a look.

3. Look for quality assets

In property, location is key. Along with the location of a fund's underlying properties, consider how the assets are constructed. Are the floorplans generous and open plan? Does the building meet the requirements of tenants – now and in the future?

4. What is the fund manager's gearing policy?

An unlisted fund often borrows from lenders to buy an asset. Leverage (gearing) can deliver higher returns. But the more highly geared an asset, the greater the risks. At Charter Hall for instance, gearing of open-ended funds is typically below 45%. Most are geared below 40%.

5. Who is managing the asset?

Look closely at the company managing the fund's investment(s). Do they have people on the ground where the assets are held? Do they have a long track record of delivering – and outperforming – their investment mandate?

Seeking income alternatives?

Understanding and allocating to direct property investments through a portfolio construction lens.

Effective portfolio construction is essential to successful investing and requires structuring a portfolio based on an investor's financial goals. Increasingly, investors are faced with market volatility, lower global growth prospects, increased uncertainty and lower returns in traditional investment classes.

Direct property is a rapidly evolving global asset class, with investors actively increasing their portfolio allocation to reduce portfolio volatility and return correlations compared to traditional investments like equities.

We look at the importance of direct property within a balanced investment portfolio using a time series study conducted by Genium Investment Partners (Genium) over a 10-year period (concluding 31 December 2023). The study looks at the risk-return attribution characteristics of direct property and the impact on different methods of portfolio construction (core-satellite and sector-specific approaches).

Direct property plays a key role in a diverse portfolio.

The key role of direct property investments within a diversified investment portfolio is to provide regular income returns with the potential for capital growth over the medium to long term, with minimal correlation to traditional investment classes.

As seen in Figure 1, direct property provides a correlation coefficient of +0.07 when compared to Australian equities. This low level of correlation is important because not only does it diversify an investor's portfolio return profile, it also reduces the chance of negative returns in any one period across a diversified investment portfolio.

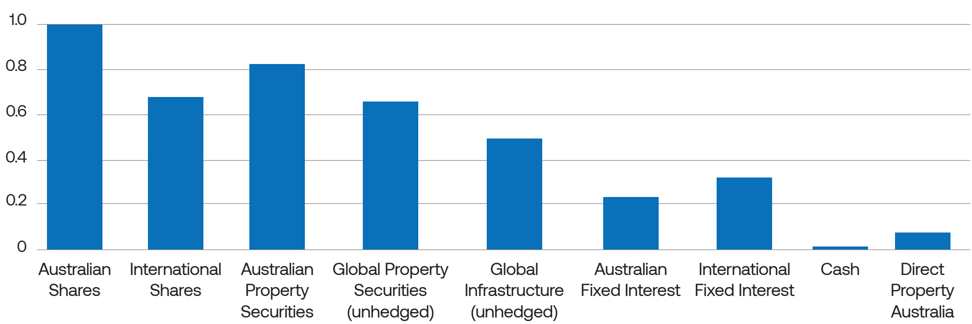
Genium analysed three investment portfolios with a summary of two key performance and risk metrics being shown in Figure 2.

The results of this study found that if an investment portfolio had an allocation to direct property, it was able to achieve higher excess returns versus the index and lower levels of volatility.

Benefits of a core-satellite investment approach.

Core-satellite investing is an investment strategy that combines a diversified core portfolio with a selection of active satellite investments. The study looked at the benefits when allocating to direct property.

Figure 1: Asset class correlation - 10 years to December 2023



Note: Direct property relates to unlisted commercial property.

When considering a satellite allocation (0%-10% of the core-satellite portfolio) to direct property, the results found:

- A reduction in portfolio volatility
- A decrease in the probability of a negative portfolio return
- An increase in the stability of the portfolio's income returns

When considering a core sector allocation (>20% of the portfolio asset allocation) to direct property, the results found:

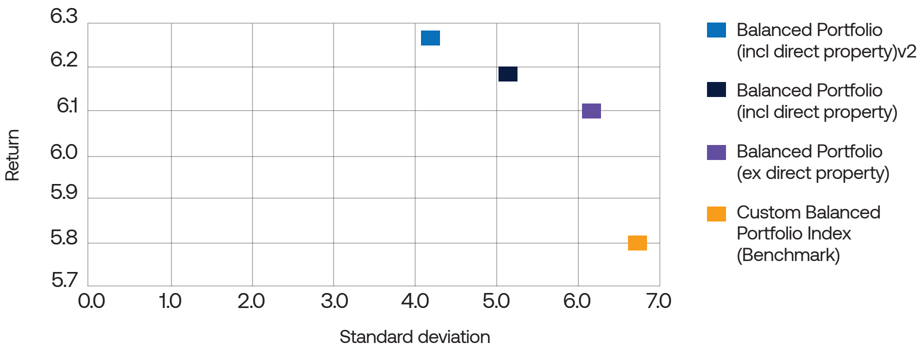
- Alternative sectors of the portfolio were set up in a way to cope with illiquidity from direct property
- An increased emphasis on income returns
- Direct property effectively helped the portfolio mitigate the impact of inflationary pressures

Figure 2: Performance/Risk Metrics: 10 years **1 January 2014 to 31 December 2023**

Balanced Portfolio	Return	Standard Deviation
Balanced Portfolio (ex direct property)	6.10	6.13
Balanced Portfolio (incl direct property)*	6.19	5.09
Balanced Portfolio (incl direct property) v2**	6.27	4.11
Custom Balanced Portfolio Index (Benchmark)	5.80	6.72

*Balanced Portfolio (incl direct property) - 10% direct property (Australian direct property Investor proxi)
**Balanced Portfolio (incl direct property) v2 - 20% Direct property (Australian direct property Investor proxi)

Figure 3: Risk Returns - 10 years to 31 December 2023*



*A Balanced Portfolio in this instance is 50/50 split between Growth/Defensive assets.

Figure 1, 2 & 3 Source: Genium Investment Partners.

Emerging property trends

We look at the trends set to shape commercial property markets[10].

Industrial and logistics – rents rise 17.7% YoY

Australia has one of the tightest industrial and logistics vacancy rates globally at 1.1% nationally. Demand outpaced new supply for industrial and logistics assets in 2023, with geographical constraints, tight planning restrictions and limited connecting infrastructure restricting the availability of zoned land.

The imbalance between supply and demand has underpinned 17.7% face rental growth over the past year.

2024 is expected to see an uptick in completions. Approximately 2.3 million square metres of developments are currently under construction and due to be completed by the end of the year. Around 43% of this stock is already pre-committed.

Living sectors – apartment rents rise 24.4%

Through the financial year ended 2023 (FY23), 35,700 new apartments were added to Australia's major cities, however this is 10% less than the previous year, and significantly below demand (121,500 in FY23).

The tight supply and high demand conditions pushed national apartment rental growth to 24.4% across Australia's five major cities during the period FY23.

Office – demand strong for prime space

In the office market, tenant demand remains strong for higher quality spaces.

Leasing activity and the growth in occupied office stock across Australia's office markets have been in line with historical growth rates in the post-lockdown period. However, headline figures mask the increased priorities on quality, with prime leasing trending above pre-COVID levels.

Retail – a supply shortfall is looming

Across the retail market, construction activity has continued to trend down with higher construction costs also reducing forward supply.

Based on population projections and historical requirements, approximately 600,000 square metres of additional neighbourhood shopping centre space will be required over the next five years. By comparison, there is currently just 323,000 square metres of space forecast for completion over this period.

10. Charter Hall Research, JLL and CBRE

What will drive future performance?

Australia's track record of outperforming risk-adjusted returns for commercial property is anticipated to continue.

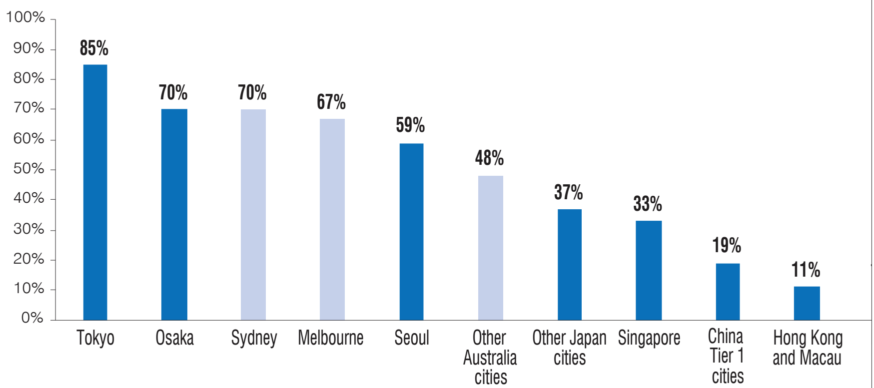
Demand across the core commercial property sectors is expected to rise against the backdrop of growing industries and resilient growth. As stated earlier in this guide, Sydney and Melbourne were ranked equal second and third investment destinations respectively for institutional investors in 2024.

Australia's resilient economic performance

Australia's run of economic good fortune is anticipated to continue, benefitting from a dynamic and diversified economy. Growth will be underpinned by a younger and fast-growing population, high growth essential industries and demand from the fastest growing region in the world.

Demand is likely to be further supported by record infrastructure investment, with $429 billion committed or under consideration. Australia faces a shortfall of quality commercial assets, and demand is expected to increase, boosted by 10-year population growth estimates[11].

Figure 2. Preferred investment locations for 2024



Source: ANREV Investment Intentions Survey 2024

11. Oxford Economics

What will drive future performance?

Figure 3. Additional real estate requirements from 10-year population growth

Sector	Ratio*	Incremental requirement	Incremental capital value**
Industrial & Logistics	1:3.5	14.7 million sqm	$36.7 billion
Office	1:10	4.2 million sqm	$42.0 billion
Neighbourhood Shopping Centre	1:0.3	1.3 million sqm	$7.8 billion

Source: Charter Hall, *Why Australia: Luckier For Longer*

* The 'ratio' outlines for each additional person the amount of m² of real estate that is required to serve them for each asset type. For example, for each additional person, a *further 3.5m² of I&L space will be required. The incremental requirement was based off an assumed +4.2 million of population growth between 2022 and 2032.*

** 'Incremental capital value' is the estimated additional capital value which will be generated from the building of these additional real estate requirements.

Australia is a global safe haven

The Australian market is a highly ranked destination for capital preservation: it has strong governance, high levels of transparency and low levels of debt. It has coveted global cities, one of the wealthiest populations in the world and one of the largest superannuation markets.

Australia is becoming a renewable energy superpower

Commercial property will be supported by one of the largest diversified natural resource reserves, a pathway to becoming a renewable energy superpower, leading innovation in R&D technologies and a record infrastructure pipeline.

Risk considerations

As with all investments, an investment in commercial property carries a number of risks.

Some of the key risks of an investment in commercial property include:

- **Lack of liquidity**
  Commercial property is considered illiquid and investors should consider investment timeframes of five years or more.
- **Property valuation fluctuations**
  Commercial properties are susceptible to fluctuations in value over time. Factors such as lease terms, cap rates or supply/demand may affect the ongoing value of a property asset.
- **Legislative change**
  Changes in government legislation can have knock-on effects on the performance of some commercial properties.

It is possible to manage many of these risks within an investor's broader portfolio. The key is to tailor allocations to commercial property in line with the needs of individual investors, with weightings based on return objectives, risk tolerance, volatility sensitivity, portfolio diversification and liquidity constraints.

Australia faces a shortfall of quality commercial assets, and demand is expected to increase, boosted by 10-year population growth estimates.[11]

Case study 1: How to allocate property

Most of our clients are retirees. They don't like volatility, they want consistent income, stable cash flow, and consistent growth over time, which are benefits that well-purchased and well-managed property achieves.

Thomas Heenan, partner at Accru Financial Planning, explains why commercial property is playing a key role in the asset allocation of many of his retired clients.

We started looking at the industrial property and logistics sector in 2017. At that time, office was the main outperformer in terms of direct property. We were looking for opportunities, and with the rise of online shopping and automation efficiencies among the supermarkets, we saw a compelling case for capital growth in industrial property and logistics.

We specifically looked at Charter Hall's Direct Industrial Fund No.4 as a viable option for our clients. With property, tenants are key, and Charter Hall are experts at managing long leases with big tenants. This underpins the income profile and valuations.

Charter Hall's Direct Industrial Fund No.4 is weighted to properties and adaptable sites across Australia's east coast cities. Call it a geographical bias, but we believe the key drivers for Queensland, NSW, and Victoria are similar, whereas markets in Western Australia, South Australia and the Northern Territory seem to be more cyclical.

Most of our clients are retirees. They don't like volatility, they want consistent income, stable cash flow, and consistent growth over time, which are benefits that a well-purchased and well-managed property achieves. The greater cash flow you have, the less liquidity you need as the cash flow provides this liquidity.

That said, commercial property is a broad asset class, and not something a lot of our clients have invested in, it's mostly residential backgrounds. So, we have provided client education around what industrial property and logistics actually is.

One story we like to share is around the COVID pandemic, when the country was shut down, and there was a huge amount of uncertainty, and stress on tenants and landlords. Having a team like Charter Hall, who managed the properties so well, meant our clients who stayed the course have received great returns.

I think it's a really interesting time for commercial property right now. Inflation has moderated from circa 6% to 4% – and is falling here in Australia. This is leading to softening interest rate expectations. It's a nice tailwind for commercial property over the medium term. We see this as creating opportunities for assets to provide more yield while making commercial property even more attractive on a like-for-like basis.

Case study 2: Partnering with advisers

Over the last 10 years, Charter Hall's commercial property investment solutions have evolved from single asset syndicates to pooled investments with structured exit mechanisms.

With more than 15 years of industry experience, Marco Triani has been able to help and educate many of his clients on commercial property investments. As the group's NSW state distribution manager, he is part of Charter Hall's Direct business division, which looks after around $10 billion in funds under management. He believes demand for the asset class has increased to suit the changing demographic in Australia.

"Investors' requirements for income solutions are only growing," says Triani.

"Commercial real estate provides access to regular income, underpinned by a physical asset and tenant leases."

He notes that the asset class also enables advisers and their clients to tap into returns from both listed and government entities beyond the traditional options of equities and bonds.

Case study 2: Partnering with advisers

Triani adds: "Over the last 10 years, Charter Hall's commercial property investment solutions have evolved from single asset syndicates to pooled investments with structured exit mechanisms. This was in response to advisers looking for greater scale and diversification, as well as seeking a fit more in line with the broader financial planning process."

Factors for advisers to weigh up

When it comes to allocating commercial real estate to an individual investor's portfolio, Triani believes there are three key aspects advisers should discuss with their clients:

- **Investment horizon** – real estate is a medium to long term investment, and it can take 5-7 years to generate the return targets outlined in a PDS.

  "Investors should only proceed if they are comfortable with this type of time horizon, and it aligns with their investment objectives," says Triani.

- **Liquidity preferences** – commercial real estate is not a liquid investment, and Triani says investors should regard an investment in commercial real estate as part of their illiquid asset bucket.
- **Income requirements** – commercial real estate can be a great source of income, underpinned by rental streams. However, Triani adds: "Investors should consider the specific property, tenant, location and rent characteristics to understand how secure this income is, and whether the income stream meets the investor's objectives."

Glossary

A-REIT: An Australian real estate investment trust is the pooled capital used to purchase and manage real estate investments to provide investors a return. Usually traded on a stock exchange.

ASX: Australian Securities Exchange.

Capitalisation rate: The capitalisation rate, also known as cap rate, is a calculation comparing the income generated from a property with the value of the property.

Close-ended funds: Funds that are open for a specific amount of time and then closed to new investment.

Commercial property and logistics: Most commonly, office, industrial, retail and social infrastructure investment property.

Direct property fund: A direct property fund is a managed investment scheme, not listed on the ASX, where multiple investors' money is pooled together to purchase property assets. Ownership is shared between investors based on their investment portion, but the actual investment is determined by the fund manager.

Distribution: Regular income payments made from the fund to investors.

Evergreen funds: Also known as 'open-ended' funds, evergreen funds have no set termination date.

NLA (net lettable area): This is the total amount of floor space available to be rented. Usually applies to office properties.

Occupancy: Occupancy refers to whether the building has tenants, and how much of the building is occupied. It is measured as a percentage of occupied floor space to total space in the property. Commercial property performance is heavily reliant on high levels of occupancy.

Open-ended funds: Funds that are open to new investment over the long term.

Tax-deferred: Generally, refers to the excess of the amount of any entitlement to a distribution from a fund over the taxable component of that entitlement.

Vintage funds: Often termed 'close-ended' investment funds, vintage funds run for a specific term.

WALE (weighted average lease expiry): In a property with two or more tenants, WALE refers to the average lease expiry between them. A high WALE means tenants, on average, will remain in the building for some time, while a low WALE is of course the opposite. The 'weight' of a WALE calculation may be based on the amount of floor space a tenant occupies, or the income they are generating. So, in a retail centre with one massive supermarket and 10 small stores, the supermarket's lease will affect the WALE more than any individual shop as it is both larger and pays higher rent.

Yield: This is the value of the annual income distributions paid by the fund divided by the unit price at a point in time.

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