FACT SHEET
Property Trusts

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What are Property Trusts?

Property Trusts allow indirect investment in property by raising funds from investors to purchase property assets. They enable investors with relatively small amounts of money to invest in the property market.

The trust provides diversity by owning, managing and trading properties both locally and sometimes globally. The properties are mostly commercial (business) properties.

Listed Property Trusts (LPT)

Also known as Real Estate Investment Trusts (REIT) they are listed on the stock exchange and traded through a stockbroker. The unit price of these trusts is influenced by the perceived value of the buildings the trust owns and movements in the stock markets. The values can rise and fall. The main categories of trusts include industrial, office, retail, hotel/leisure or a diversified mix of each.

Unlisted Property Trusts (UPT)

Unlisted property trusts usually raise funds to buy or develop particular real estate and the trust closes to new investment when adequate funds are held. Units can then be bought and sold through the trust managers. Diversification is often limited and the investment less liquid. They are not listed on the stock exchange.

Property Securities Trusts (PST)

A property securities trust is an unlisted trust which pools investors' money for investment in listed property related securities (shares and trust units). These investments offer potential income and growth. The unit price is linked to stock market fluctuations so can rise or fall. Capital losses can occur. Units are traded through the fund manager, not a stockbroker.

Features

- Minimum investment varies between funds and can range from $1,000 to $10,000
- Property trusts give investors the opportunity to invest in a spread of property investments with a relatively small amount of money
- Income payments may be reinvested or paid directly to the investor
- Distributed income may have tax advantages
- Potential for capital growth

But Remember...

- Property trusts are not capital guaranteed. Values change with market variations and can fall
- Withdrawals may be difficult due to the illiquidity of the underlying assets. An increase in withdrawal requests can put pressure on liquidity. Therefore it is possible for the fund to be frozen
- Investors have no direct choice in the selection of properties

Government Income Support

The full market value of the investment less debt used to purchase the investment, whether secured or not, but not including that secured by the principal residence is assessable as an asset. This is automatically reviewed in March and September.

The full market value of the property trust is assessed for the income test under the deeming rules but there is no reduction by any associated debt. For further details contact a Department of Human Services (DHS) Financial Information Service (FIS) Officer or the Department of Veterans' Affairs.

Fees

- Unlisted trusts (including property securities trusts) may charge an entry fee of up to 5%
- Listed property trusts incur brokerage charges to both buy and sell units
- Annual management fees for property securities trusts and unlisted property trusts are charged on the fund balance. Fees vary from 0.85 to 2%. They are included in unit price calculations, so are deducted before the unit price is declared

Taxation

This can be complex and expert advice may be required from a qualified taxation expert. Generally the following applies:

- Income is assessable for income tax purposes
- Deductions for expenses and depreciation may reduce tax payable. Tax deferred income may also be provided, as advised in distribution statements and may include realised capital gains. This may reduce the cost base for Capital Gains Tax (CGT)
- CGT is assessed upon withdrawal from property trusts purchased after 19 September 1985 or on income distributions as advised
- Imputation credits may be available from various property trusts. This provides a tax credit to reduce personal tax liability

The fund should provide a tax statement each year to assist with completion of tax returns

Security and Risk

The security of the investment depends on the type of trust, the properties it holds and the trust's investment policy. For property securities trusts and unlisted property trusts these details should be outlined in the Product Disclosure Statement (PDS). Although these documents are lengthy and complicated, they should be fully understood before investing.

In assessing the risk or security level consideration should be given to:

- the quality of the properties invested in or owned by the trust including location, condition, management and whether they have good long term tenants;
- the type of property in the trust, eg. residential, commercial, industrial etc.;
- the frequency, accuracy and method of valuations;
- the spread of property within the trust, e.g. trusts investing heavily in development or resort properties usually have higher risk;
- the type and quality of the property related securities, if any, and their spread across different companies;
- the amount of borrowings if the property trust borrows funds to invest. A high level of borrowings (gearing) increases the potential amount of capital gain or capital loss.

Investing With Safety

- Listed property trusts have a number of risk factors as they are affected by general stock market fluctuations as well as property market fluctuations
- Unlisted property trusts are affected by property market fluctuations
- While past performance may be used as a guide it is no guarantee of future performance
- Property trusts should not be regarded as short-term investments. Money required for ready access should not be used
- As with any investment that offers capital growth, potential for capital loss also exists, and volatility can be high.
- Property trusts are considered higher risk investments. Investors should read the current PDS (unlisted trusts) or the most recent performance report (listed trusts) carefully before investing
- Consider diversifying your investments over several asset classes