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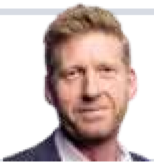
BUSINESS COMPANIES COMMERCIAL REAL ESTATE

Impending property 'calamity' an 'over-reaction'



By Simon Johanson
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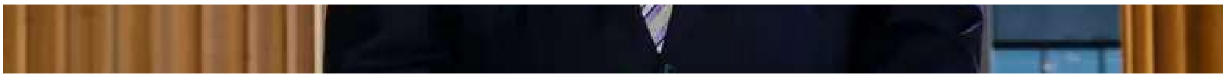
Senior property industry executives have dismissed fund manager Altair Asset Management's surprise liquidation of its entire Australian share funds because of an impending property market "calamity" as an "over-reaction."

Altair Asset Management caught the market's attention on Monday when its chairman and investment officer Philip Parker said the fund had advised clients it would sell "hundreds of millions" of dollars of "underlying shares in the Altair unit trusts and then hand back the cash to those same investors".

Mr Parker cited a roll call of reasons to exit riskier shares and property markets including Australia's east coast housing "bubble" and its "impending correction", China's hot property sector and rising debt levels, geopolitical risks and unpredictability in the US and Australia's "overvalued" equities market.

"Giving up management and performance fees and handing back cash from investments managed by us is a seminal decision, however, preserving clients' assets is what all fund managers should put before their own interests," he said.



Altair Asset Management chairman and chief investment officer Philip Parker returned cash to investors, citing the risk of a pending correction. BROOK MITCHELL

Altair 'sell-all' overstated

Altair's sell-all strategy has attracted criticism with Macquarie Group's former head of real estate business Bill Moss suggesting it was overstated.

"You could have said that [about China] a long time ago," Mr Moss said.

Australia's property was experiencing a "one-off adjustment" to yields and values because of "incredible demand" from China to invest in residential and commercial real estate, Mr Moss said.

"I'm not convinced that it's over. From what I'm seeing, there is still a lot of strong interest from China. I would be looking for the real reason they [Altair] have pulled out," he said.

Fund manager and executive chairman of boutique investment bank Gersh Investment Partners, Joe Gersh, said each property cycle had "its own rhythms and manifestations".

"I think that the reaction of selling everything has been an over-reaction but here's no question that now is the time for some caution," Mr Gersh said.

"Clearly we are in a low interest rate environment and a low yield environment. At the moment the domestic side of the market is able to meet its commitments."

"The fear is the foreign buyers could renege on their obligations or simply dry up. That hasn't yet materialised but the banks are under considerable pressure," Mr Gersh said.

Yields still attractive

Australia's commercial property yields were "near record lows" but still attractive relative to overseas asset prices, said John Sears national research director with Cushman & Wakefield.

"Our yields are still attractive compared to overseas yields and alternative assets like fixed interest and bonds," he said.

Saul Eslake, an independent economist and Vice Chancellor's fellow at the University of Tasmania, said various hedge funds and economists had in the past predicted a property bust.

"I have always struggled to find credible the period forecasts that there is a collapse around the corner," Mr Eslake said.

"Are Australian house prices and household debt high? Yes, of course they are and there are some risks that flow from that."

"But to be a 'calamity' .. you would need some things to occur that I can't see occurring anytime soon," he said.

That would take rising interest rates or an event that precipitated forced selling of property into an oversupplied market, he said.

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