

Frozen Funds Exit Comes at a Price

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Investors in some unlisted, frozen property funds will have a chance to sell their units with the launch of a property securities "fund of funds" that will buy from large investors in a frozen trust. The plan will offer an exit – at a discount to net tangible assets.

While it's at a discount, the managers argue that it gives some investors a way to recoup cash that could stay frozen for years.

Melbourne-based property fund manager Key Capital is set to launch the Unlisted Property Securities Fund, which targets units in structurally sound but illiquid commercial property funds.

Key Capital's managing director, Andrew Patrick, said that although the fund would not be purchasing individual investor holdings, the system would inject some much-needed liquidity into the sector.

The company is looking to seed the first Unlisted Property Securities Fund with \$2 million and seeking to raise between \$25 million and \$50 million. Units in the target funds will be purchased via the **Transfer Asset Group**, which was founded by independent consultant **Ken Atchison**.

"We envisage the fund will be for a duration of six years but we have the option to extend depending on demand," Mr Patrick said. "We believe this will provide much-needed liquidity in the unlisted market, which has been hard hit by the global financial crisis."

"It is estimated that unit-holders in unlisted property trusts are clutching \$2 billion in frozen assets, with no available buyers."

Mr Patrick said the recent move by the Australian Securities and Investments Commission (ASIC) to relax the rules on how redemptions could be fulfilled was positive for the sector but he doubted the measure would create any liquidity in the funds.

"Many wholesale investors are under pressure to sell to meet redemption requests from their retail investors and are willing to do so at a substantial discount to the net tangible asset value".

Mr Atchison, managing director of **Atchison Consultants**, conducted a 12 month study to develop the criteria for selecting targets for the Unlisted Property Securities Fund. It will include analysis of properties owned; occupancy levels; rental growth prospects; loan covenants; interest cover and terms of loans; and a prospective exit route.