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Rubicon adds to its retail portfolio

Ben Wilmot

The Rubicon Japan Trust yesterday added another $300 million of retail property to its fast-growing portfolio and said it would strive to lift its performance by running its assets harder.

Rubicon Asset Management managing director Gordon Fell said: "The next phase of our development is to concentrate on active asset management."

Trust units added 2.5¢ to close at 87.5¢ yesterday as the trust reported strong growth in distributable income per unit for the eight months to the end of June.

The trust's 7.1¢ a unit distributable income was 29 per cent above the forecast 5.5¢ a unit. Rubicon Japan also provided investors with healthy earnings guidance of distributable income for 2008 of 10.29¢ a unit.

Cash distribution guidance for 2008 was a more conservative 10¢ per unit.

The trust listed in late 2006. Since then, its portfolio and management team in Japan have grown. But investors have been unnerved by fluctuations in the Japanese yen against the Australian dollar and uncertainties about how well the portfolio was protected.

Dr Fell said the portfolio was protected and noted the trust had made nine property acquisitions that added to earnings and undertaken a capital raising since listing.

In its latest deal, Rubicon Japan bought four new shopping centres for ¥27.9 billion ($301.2 million) on a yield of 5.34 per cent. The centres were sourced off-market and three of them had been destined for New City's planned Australian float. CB Richard Ellis advised on part of the deal. The acquisition was debt-funded and took the trust's gearing to 63.1 per cent — but this is before expected valuation increases as investors continue to vie for Japanese property.

Gordon Fell says the Rubicon Japan Trust will next concentrate on active asset management. Photo: TAMARA VONINSKI

KEY POINTS

- The trust reported strong growth in distributable income per unit for the eight months to the end of June.
- Rubicon Japan's most recent deal is the purchase of four new shopping centres.

Dr Fell said the trust would go through a period of consolidating its portfolio and emphasised the focus on operating performance.

Rubicon Japan secured 20 new leases covering 5.7 per cent of its portfolio at rents 19.6 per cent above passing levels. It also secured seven renewals over a smaller part of the portfolio at rents 9.4 per cent above passing rents.

Rubicon Japan said its portfolio continued to be underrented and it could use vacancies to drive increased cash flow by leasing vacant space.

Although capitalisation rates have fallen across Rubicon Japan's portfolio by an estimated 50 to 75 basis points since the trust floated, the manager is yet to revalue its assets.

Rubicon has hedged its exposure to the volatile currency movements. Dr Fell said the foreign exchange hedging strategy protected investors from the Australian dollar's appreciation earlier this year.

The more recent fall has also benefited the trust as it has a "cap and collar" hedging arrangement in place, he said.

Dr Fell said Rubicon had added staff in Japan and the group's relationship with real estate firm DTZ and property manager Xymax was producing results.

"Given the liquidity that exists in Japan there's still good deal flow and opportunities," DTZ divisional director sales and investments Alistair Meadows said.

Rubicon has taken a 12.2 per cent stake in the trust and believes the poor unit price performance will turn around.

Steve Hiscock, managing director of SG Hiscock & Co, said the result was also positive. He said if the trust's portfolio was "marked-to-market" and adjustments made for the rise in the Japanese yen in recent weeks, the trust's net tangible asset backing would top $1.10 per share.

Mr Hiscock said the portfolio was underrented by about 10 to 20 per cent and that listed property trusts invested in Japan should perform well.

"I am surprised they haven't rallied more," he said. "I would have thought most investors would have taken comfort from today's result."