

Publication: SMH Money | Date: 28 March 2007 | Journalist: Angus Geddes



## Hot stock

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**What's new?** Since listing last November, Rubicon Japan Trust has wasted no time in growing its asset base. The trust recently acquired four properties (two office and two retail) for a total cost of about \$500 million.

Dotted along the length of the country, the new additions provide geographic diversification – a valuable thing in earthquake-prone Japan. The portfolio's PML (probable maximum loss, a common measure of seismic risk) will reduce from 13 to 8 per cent.

Of the four recent acquisitions, the Kawasaki Tech Centre is the most significant. At \$330 million it will be the trust's single largest holding, representing 44 per cent of its total assets. Located just outside Tokyo, the centre should benefit from the region's rising demand for office space.

The Norbesa retail complex is the second-largest acquisition, coming in



at a cost of \$110 million and representing 15 per cent of the fund. Located on Hokkaido, Japan's northern-most island, it has a weighted average lease term of 10.8 years. Although existing tenants are on fixed leases, increased rental income is likely to flow through as the current 18 per cent vacancy rate diminishes. Making up the rest of the new additions are two much smaller properties, retail and office.

Viewing the latest deal as a whole, management have demonstrated their ability to operate effectively in the local market,

securing each property at a discount to the independent valuation.

**The outlook** As recent data shows, the Japanese economy continues to gain strength. Gross domestic product grew at a robust annualised rate of 5.5 per cent in the December quarter. In the face of increasing consumer spending and business investment, the Bank of Japan is likely to continue its strict stance. Indeed, the bank recently increased the official cash rate 25 basis points to 0.5 per cent.

However, rate rises are likely to be gradual, as the authorities remain

concerned about a return to a deflationary environment.

Overall, though, experts see the outlook in Japan as inflationary. And this can only be beneficial to property, which has always been an important hedge against inflation.

**Price** Since making a strong debut in November, Rubicon Japan has performed weakly.

With volatility in Asian markets, and Japan in particular, emerging in late February, the stock has pulled back sharply. However, experts see this as a temporary setback and expect prices to recover over the next few months. The current share price is about \$1.02.

**Worth buying?** Rubicon Japan trades on a yield of nearly 10 per cent, so from an income point of view the trust appears attractive.

Given the inflationary pressures emerging in the Japanese economy, the trust's assets should also remain well supported and provide potential for some capital growth.

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