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Moody's outlook gloomy for listed property trusts

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THE outlook for listed property trusts (A-REITs) is expected to become even worse in the next 12-18 months, according to international credit rating agency Moody's Investor Service.

In its industry outlook due to be published today, Moody's says the outlook is negative for Australia's real estate investment trust (A-REITs) sector.

Moody's senior analyst Clement Chong said trusts' rental income would continue to suffer as economic growth shrank.

"The outlook has worsened since we published our last report six months ago," Mr Chong said.

Vacancies in the CBD office market had risen from 4-4.5 per cent to 6 per cent and rental incentives (tenant inducements such as free fitout) had risen to more than 20 per cent.

Mr Chong said the economic slowdown would flow on to the retail and industrial sectors.

"Westfield has said that the leasing environment has become more challenging," he said.

Moody's remained concerned about the impact of asset values on loan covenants, gearing and liquidity.

Mr Chong said the fact that trusts had come back for a second capital raising in less than a year would not change the impact of a recession.

"The equity raised would provide a cushion and not change the fact that we are heading into a recession," he said.

Only a select number of trusts could raise capital, and the rest of the sector might find it difficult to secure an equity injection, he said.

Moody's says the outlook for Westfield Group is negative, indicating that it is concerned about the trust over the next 12-18 months.

It has downgraded Goodman Group, but is planning to upgrade GPT Group from negative to positive following its capital raising this week.

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