

# Direct investors in wait-and-see mode

Jason Clout

Some direct property investments would have fallen in value in the past year, but the industry said there was no need for investors to rush to sell.

The Australian Direct Property Investment Association released a report yesterday that showed direct property was among the five top-performing asset classes during the past decade.

But president Linden Toll said there was no doubt some direct property investment valuations would have fallen in the past few months.

"I don't think it's the same sort of fall which has affected listed property, but there would have been a drop in some valuations."

Mr Toll said it was a similar story for direct property inflows. Inflows had been strong for five or six years but had slowed considerably this year.

But ADPIA was not seeing too much inflow either, indicating most investors were prepared to wait to see which way the market went.

There had been "tremendous turmoil" in investment markets over the past 12 months, including prop-

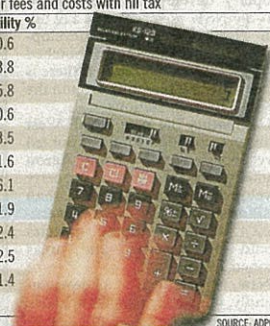
## Out in front



Returns and volatility of asset classes After fees and costs with nil tax

Asset class	Return %	Volatility %
▶ Australian shares	13.5	10.6
▶ Overseas shares	3.5	13.8
▶ Residential property	11.6	5.8
▶ Listed property	12.8	10.6
▶ Fixed interest	5.5	3.5
▶ Cash	5.5	1.6
▶ Managed funds	8.6	6.1
▶ *PCA direct	11.8	1.9
▶ *PCA retail	12.8	2.4
▶ *PCA office	10.6	2.5
▶ *PCA industrial	12.8	1.4
▶ Inflation	2.9	

\*Property Council of Australia



erty. "However, direct property is unique in that valuations are not sentiment driven," Mr Toll said. "It is therefore less likely to suffer the dramatic highs and lows of other markets and generally has a low performance correlation to other asset classes, which makes it ideal for defensive investment within a balanced portfolio."

Ken Atchison, managing director of asset allocation specialists Atch-

ison Consultants, said direct property had returned 11.8 per cent for the past 10 years.

The best-performing asset in the past decade was Australian shares at 13.5 per cent. Listed property – now called real estate investment trusts by the ASX – returned 12.8 per cent, but with much greater volatility than direct property. Inflation in that period had averaged 2.9 per cent.

Direct property's return for the

past 20 years had been 9.1 per cent. Mr Atchison said that that two-decade performance included the major property slump of the early 1990s. "Then, there was a huge oversupply of property. We don't see that now in any property sector, and demand is strong with the economy still growing."

Mr Atchison said the ADPIA study showed investors should increase property allocations from 5

and 10 per cent to 20 per cent in balanced, growth and high-growth portfolios.

The ratio between direct and listed should vary depending on the investor's need for liquidity.

"If there is no little need for liquid investments, we'd say up to 15 per cent in direct property," Mr Atchison said.

"But our recommendation is about 10 per cent in each."

# Commercial vote of confidence 'encouraging'

Paddy Manning

Commercial property fundamentals remain strong globally despite the credit crunch, according to Deloitte's 2008 *Real Estate Capital Markets Industry Outlook*.

Ian Breendon, lead partner of Deloitte's real estate group in Australia, said there was a raging debate as to whether commercial property would be "fine until 09", or was headed for immediate challenges in 2008.

But commercial property rental

fundamentals appeared to remain encouraging.

"Even in the US, while the residential market has taken a beating, the Deloitte US report indicates commercial property continues to be a worthwhile investment both in terms of performance and stability," he said.

The report, released yesterday, is another indicator of building confidence in the Australian property sector. The S&P/ASX 200 A-REIT Index closed down 37.8 points, or 2 per cent, yesterday at 1742 points.

It is trading at 15.6 per cent above its March 17 low.

Last week, CBRE's Australian and New Zealand president and chief executive, Tom Southern, told *The Australian Financial Review* that while the volume of commercial property sales was "well down" during the March quarter, the market was regaining confidence.

"There is now more of a level-headedness about what is the impact of the credit crunch," he said. "There's a change in mood but it's not calamitous."

Deloitte's Mr Breendon said Australian investors who were cashed up could "pick up some great opportunities locally and overseas, particularly in the US, Asia and Europe".

Deloitte head of securitisation, Graham Mott agreed that asset quality and yields remained solid.

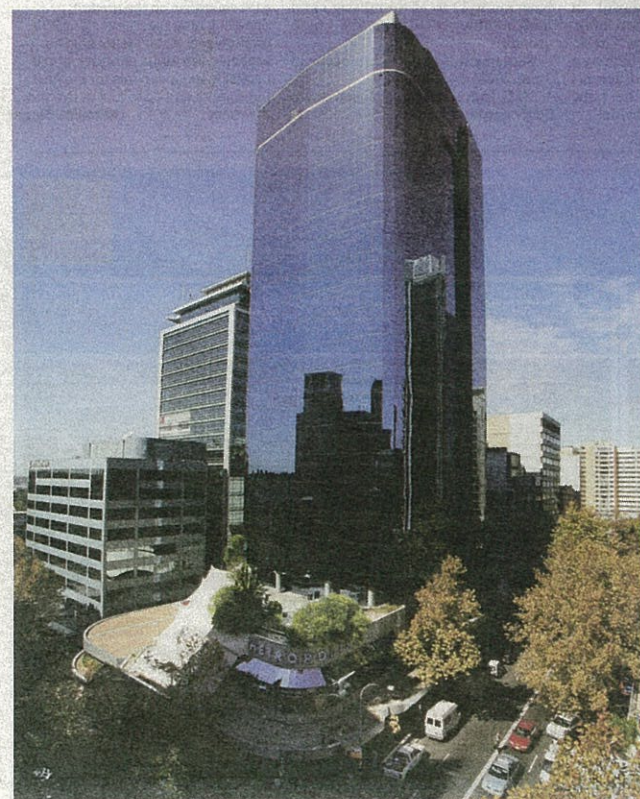
"The challenge for investors in the second half of 2008 won't be identifying opportunities, as much as securing debt in an environment where lenders are more cautious."

JPMorgan property analyst Rob

Stanton remained cautious this week and wrote in a note: "Perhaps the credit environment is slowly improving, but for a sector that pays out an estimated 111 per cent of free cash flow capital, scarcity is still a looming problem."

Mr Stanton said it was time for the A-REIT distributions to be cut: "There's a saying among surgeons that's relevant to the REIT sector right now: 'It's time to heal... with cold hard steel'."

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