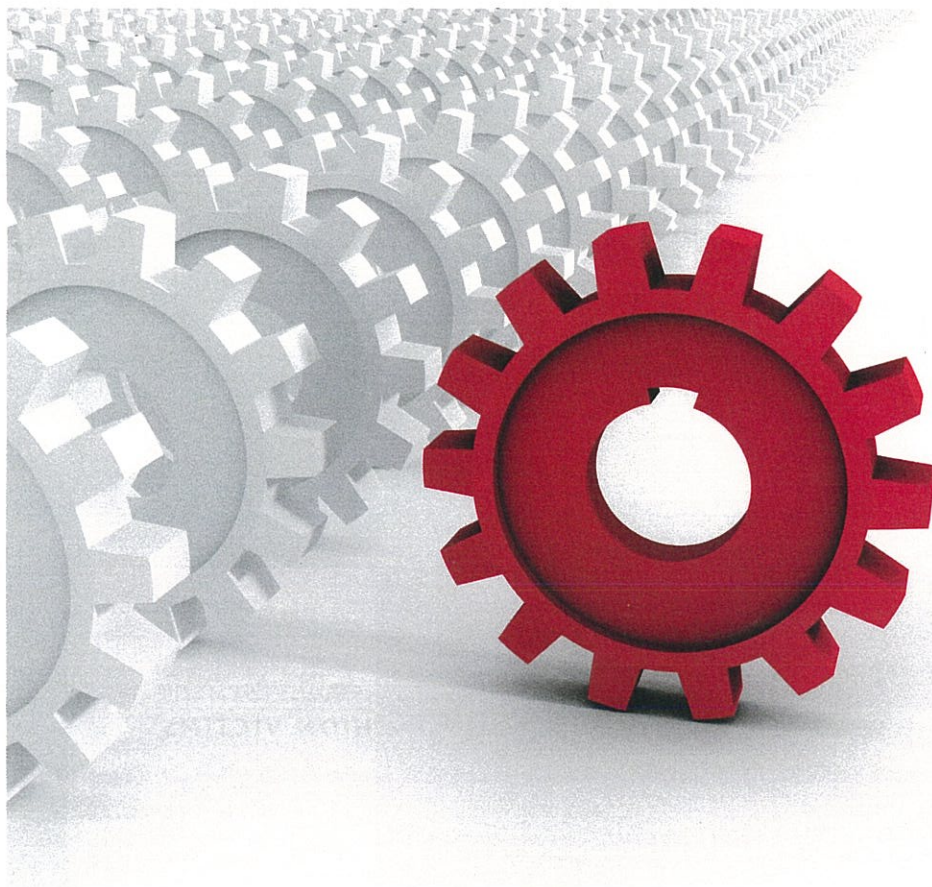


# Gearing into direct



**LINDEN TOLL** and **KEN ATCHISON** provide a compelling argument for including geared direct property in an investment portfolio.

The Australian Direct Property Investment Association (ADPIA) recently commissioned Atchison Consultants to prepare an investment report that provides comparative performance measures on a full range of investment sectors including Australian shares, overseas shares, residential property, listed property, Australian fixed interest, Australian cash, managed funds, direct property and geared direct property.

The report measured, among other things, the performance of geared property in investment portfolios. Performance was measured over the 10-year period ending December 31, 2007. Within geared direct

property there are three components: retail, office and industrial.

Over the 10 years to December 2007, geared direct property provided high levels of income returns and average volatility of income returns. Importantly, the inclusion of geared direct property has reduced negative annual returns in diversified portfolios. It was important that investors remembered the long-term nature of direct property investing. There is no doubt there has been tremendous turmoil in investment markets over the past 12 months – and the property market has been no exception. However, direct property is distinctive in that

valuations are not sentiment driven. It is therefore less likely to suffer the dramatic highs and lows of other markets and it generally has a low performance correlation to other asset classes, which makes it ideal for defensive investment within a balanced portfolio.

Following is some of the interesting findings of the report concerning geared direct property.

#### Asset class performance

Performance in terms of return and volatility of return for the individual investor is shown in Graph 1 and table 1. All costs and fees have been attributed, as well as the effect of taxation at the highest marginal

tax rate on individuals. Geared direct property components have been in the median volatility segment, while providing strong nominal and real returns.

#### Reward and risk

Sharpe ratio: the ratio of additional return above the risk free rate, being measured as the cash return, to the additional volatility of returns of each asset class is shown in Graph 2 and table 2. An outcome above 0.5 is considered to be good. All costs and fees have been attributed. It is clear that geared direct property and the components provide the strongest gains on a volatility-adjusted basis with the Sharpe ratio well above 0.5.

**TABLE 1: ASSET CLASS PERFORMANCE**

Asset Class	Return	Volatility
Australian Shares	9.8%	9.4%
Overseas Shares	2.6%	12.7%
Residential Property	8.2%	5.4%
Listed Property	8.5%	9.8%
Fixed Interest	2.8%	3.0%
Cash	2.8%	1.4%
Managed Funds	5.9%	5.5%
PCA Composite	7.6%	1.7%
Geared Composite Property	13.5%	4.4%
Geared Retail Property	15.4%	5.3%
Geared Office Property	10.9%	5.8%
Geared Industrial Property	15.1%	4.7%
Inflation	2.9%	

**TABLE 2: REWARD AND RISK**

Asset Class	Sharpe Ratio
Australian Shares	0.75
Overseas Shares	-0.14
Residential Property	1.05
Listed Property	0.68
Fixed Interest	0.00
Cash	0.00
Managed Funds	0.50
PCA Composite	3.29
Geared Composite Property	2.89
Geared Retail Property	2.77
Geared Office Property	1.71
Geared Industrial Property	3.21

**TABLE 3: DOWNSIDE RISK**

Asset Class	Value at risk
Australian Shares	\$18,210
Overseas Shares	\$37,814
Residential Property	\$5,735
Listed Property	\$18,947
Fixed Interest	\$5,030
Cash	\$0
Managed Funds	\$9,708
PCA Composite	\$0
Geared Composite Property	\$0
Geared Retail Property	\$0
Geared Office Property	\$2,315
Geared Industrial Property	\$0

#### Downside risk

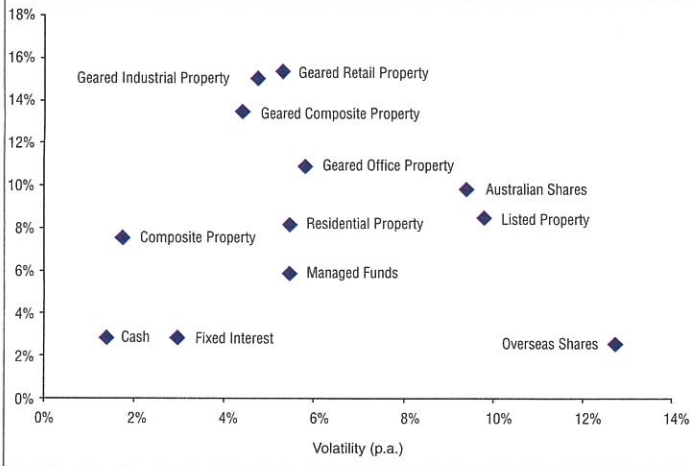
The dollar amount at risk of loss per year of a \$100,000 investment is shown in Graph 3 and table 3. All costs and fees have been attributed. Geared direct property and each of the components are least exposed to loss on a 99 per cent

probability on a one-year timeframe.

*Linden Toll is the president of the Australian Direct Property Investment Association (ADPIA) and Ken Atchison is the managing director of Atchison Consulting.*

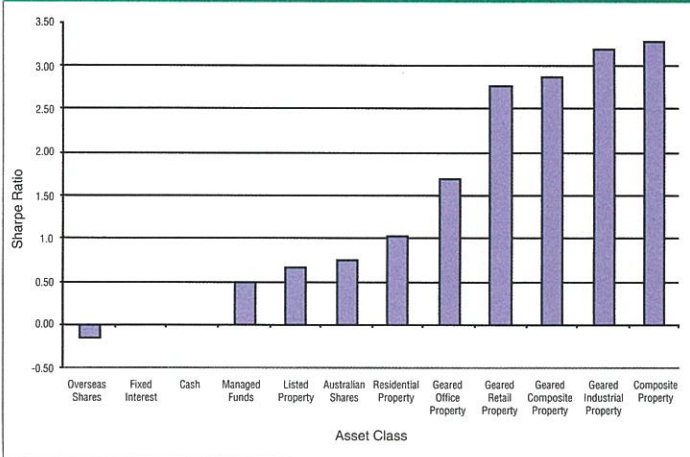
# property

**GRAPH 1: ASSET CLASS PERFORMANCE**



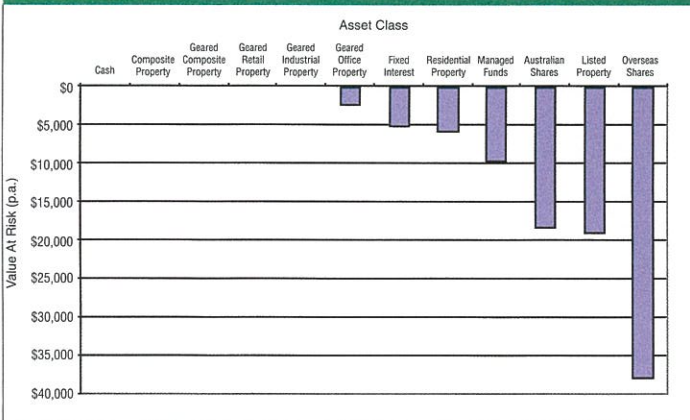
Note: asset class returns measured after fees and costs and individual taxation.

**GRAPH 2: REWARD AND RISK**



Note: Sharpe Ratio measured after fees and costs with nil tax.

**GRAPH 3: DOWNSIDE RISK**



Note: value at risk of a \$100,000 investment measured after fees and costs with nil tax.

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**FORWARD** thinking

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