



Australian Direct Property Investment Association

MEDIA RELEASE
December 5, 2006

“The findings are clear - investors should have at least 20% direct property in their portfolios. Smart investors and their advisers who intuitively understand direct property’s benefits now have solid research to back their instincts”

Direct property should make up at least 20% of investor portfolios, says ADPIA

Investors should allocate a higher percentage of their portfolio to property. That is a key conclusion from an independent report commissioned by the Australian Direct Property Investment Association (ADPIA) into the performance of 11 asset classes in Australia over 10 and 20-year periods to June 30 2006.

ADPIA president Owen Lennie says current allocations to property are “illogically” low. “The report’s findings clearly demonstrate that investors with property allocations of 5 to 10% should be increasing these allocations to at least 20% in balanced, growth and high growth portfolios,” he says.

The report clearly demonstrates that having direct property in a portfolio significantly reduces investment loss while cutting portfolio risk. At the same time this asset class delivers attractive investment returns, high income and strong tax advantages. More particularly, it shows that increasing the proportion of direct property in a portfolio will significantly reduce risk (volatility) as well as the chance of a loss in any given year.

The study, undertaken by Atchison Consultants, was based on the performance of a full range of asset classes including direct property (also known as commercial property), Australian shares, overseas shares, residential property, listed property, Australian fixed interest, cash and managed funds. The study also looked at direct property’s sub-sectors, namely, retail, office and industrial.

Managing director of Atchison Consultants, Ken Atchison, said that direct property’s low volatility is an extremely valuable characteristic. “It is low volatility that reduces the chance of making a timing error when entering or exiting the market, and this can make a significant difference to long term returns. When portfolio risk is reduced, investors can better focus on longer term objectives as they are less likely to respond with inappropriate reflex investment decisions,” he added.

Over both 10 and 20 year periods to June 2006, direct property produced very strong total returns. For the 10 year period, direct property delivered the highest risk adjusted return of any asset class. This means that investors in direct property are receiving a greater reward for every unit of risk taken on, in comparison to any other investment class.

The report further shows that direct property produced the highest levels of income of any other asset class in the 10 year period to 30 June 2006.

Owen Lennie stated that the security of income returns, combined with growth in income from sound management, provide the base for the stable outcome from property investments.

Further to this, the report showed that direct property was safer than other asset classes apart from cash. For the 10 year period to 30 June 2006, direct property was the only asset class (other than cash) that investors would not have lost money in any given year. Over 20 years, the amount of loss an investor was exposed to was lowest for direct property compared to all other asset classes other than cash. This means that an investment in direct property is of particular advantage for late stage superannuation savers and retirees looking for capital stability.

The study shows that direct property also offers great appeal to wealth accumulators in addition to the traditional investor base of super fund and retiree investors. Geared direct property produced the highest returns of all asset classes, before and after tax, over the 10 years to 30 June 2006.

Mr Lennie said "Combining tax advantages, high income and low volatility, direct property appeals to wealth accumulators, many of whom may wish to gear their direct property investment to maximise after tax returns."

Some key findings of the study exemplifies the distinct benefits of property in a balanced portfolio. These include:¹

- **Strong Total Returns** - Direct property provides strong total returns of 9.5% over the 20 years to 30 June 2006 - industrial and retail proving to be the better performers returning 12.8% and 10.9% respectively. Over 10 years, direct property delivered a solid 10.5%.
- **Highest Level of Income** - Over 10 years to June 2006 direct property has provided highest levels of income returns of any asset class, delivering 7.2%. Over 20 years to June 2006, direct property provided good income returns of 7.1%.
- **Lowest Income Volatility** - Over 10 and 20 years to June 2006 direct property has provided the lowest volatility of income return. Direct property comprised the lowest volatility of income returns of any asset class.
- **Best "Risk Adjusted" Returns** - Over 10 years to June 2006 direct property has produced the highest levels of risk adjusted returns (Sharpe ratio) as measured by volatility of any asset class. Over 20 years to June 2006, residential property was the best performer against the major asset classes, although the industrial and retail property sub-sectors outperformed residential on a risk adjusted basis.
- **Lowest Downside Risk** - Over 10 and 20 years to June 2006 direct property delivered the lowest downside risk ("value at risk") when measured against any other asset class apart from cash on a one year perspective. It follows that increasing the proportion of direct property in a portfolio will significantly reduce the prospect of a negative annual return.

¹ All returns quoted are annualised "per annum" returns for the 10 or 20 year period to 30 June 2006. Unless otherwise stated, comparisons are made against the "major" asset classes, ie, Direct Property, Australian Shares, Overseas Shares, Residential Property, Listed Property, Fixed Interest, Cash and Managed Funds. The direct property sub-sectors are not included in the comparisons unless specifically stated.



Australian Direct Property Investment Association

- **Stable Returns Profile** - Direct property and its components have been remarkably stable in all annual periods - over the last 10 years all direct property components have produced positive returns in every year. For the 20 years to 30 June 2006, all direct property sectors were least exposed to loss.
- **Sound Basis for Gearing** - Secure income streams from sound tenants with leases structured for growth in rental income provides a sound basis for gearing of property. Geared direct property produced an inferred return of 15.6% for the 10 years to 30 June 2006, the highest returns of all asset classes. Over 20 years, geared direct property returned an inferred 9.5% and with lowest volatility apart from cash.

Mr Lennie concluded, "We call on investors, asset consultants and researchers to carefully review this new research. The findings are clear - investors should have at least 20% direct property in their portfolios. Smart investors and their advisers who intuitively understand direct property's benefits now have solid research to back their instincts."

Note to the editors

ADPIA, established in 1999, is the peak industry body representing the \$17 billion direct property investment industry, with over 200,000 investors. ADPIA represents the interests of investors and managers of direct property. Its primary goal is to help Australians to build their wealth and obtain financial security by collectively investing in property through managed property investments and property syndicates. Its membership includes property fund managers, custodians, property financiers and other professionals in the property industry.

Atchison Consultants was established in 2001 by Ken Atchison. The focus of the business is on financial and investment markets, and delivery of investment advice regarding these issues to fund participants. Value add arises through analysis and assessment of dynamics in financial markets on asset classes and investment managers. In recognition of the trend in the industry, advice in specific asset classes is provided and in particular property.

For more information, please visit www.adpia.com.au or contact:

Shed Enterprises
Simrita Virk
Tel: (02) 9247 8533; 0405 441 373
Email: svirk@shed-ent.com.au

Owen Lennie
President ADPIA
(03) 9866 7019; 0411 507 505
owen@wrf.com.au

A sample of the ADPIA Investment Report is included as an Appendix to this report. Investors can purchase a copy of the full report by contacting ADPIA on mail@adpia.com.au or 03 9671 3620.

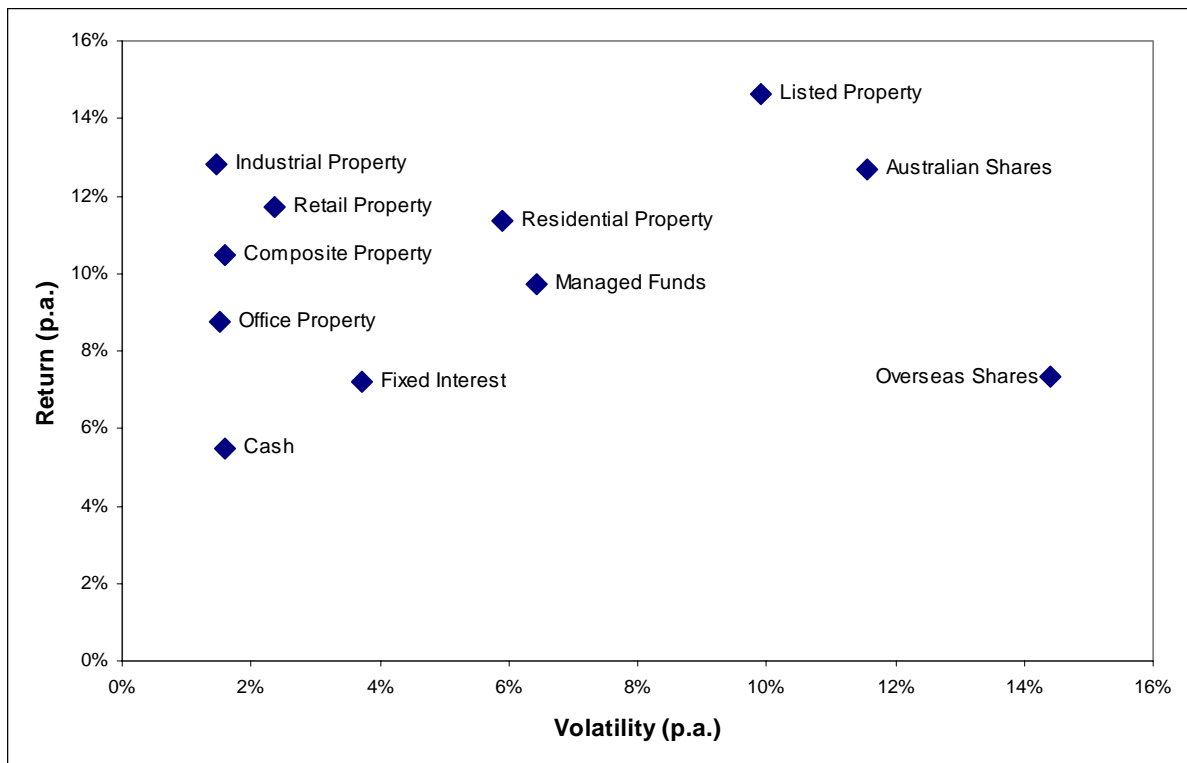
Disclaimer

The information in this statement has not considered the investment objectives, financial situation or particular needs of any person in preparing this statement. To the maximum extent permitted by law, none of Atchison Consultants, ADPIA nor any of their respective directors, officers, employees or agents, accepts any liability for any action taken by any person in reliance upon the whole or any part of this statement, nor for any errors or omissions contained in it.

Appendix 1 ADPIA Investment Report (Extract) Asset Class Returns measured after fees and costs with nil tax (10 year analysis to 30 June 2006)

Nil Tax: Return and Volatility

This graph represents the performance for an investor in terms of returns and volatility of returns based on nil tax. All costs and fees have been attributed.



Direct property components clearly have been in the below median volatility segment while providing strong returns

Asset Class	Return	Volatility
Australian Shares	12.7%	11.6%
Overseas Shares	7.3%	14.4%
Residential Property	11.4%	5.9%
Listed Property	14.6%	9.9%
Fixed Interest	7.2%	3.7%
Cash	5.5%	1.6%
Managed Funds	9.7%	6.4%
PCA Composite	10.5%	1.6%
PCA Retail	11.7%	2.4%
PCA Office	8.7%	1.5%
PCA Industrial	12.8%	1.4%
Inflation	2.6%	

Appendix 2 ADPIA Investment Report (Extract) Asset Class Income Returns measured after fees and costs with nil tax (10 year analysis to 30 June 2006)

Absolute Returns - Income Returns and Volatility of Returns (nil tax)

This graph represents the income return to an investor and the stability of the asset class in terms of income return and volatility of income returns. All costs and fees have been attributed.



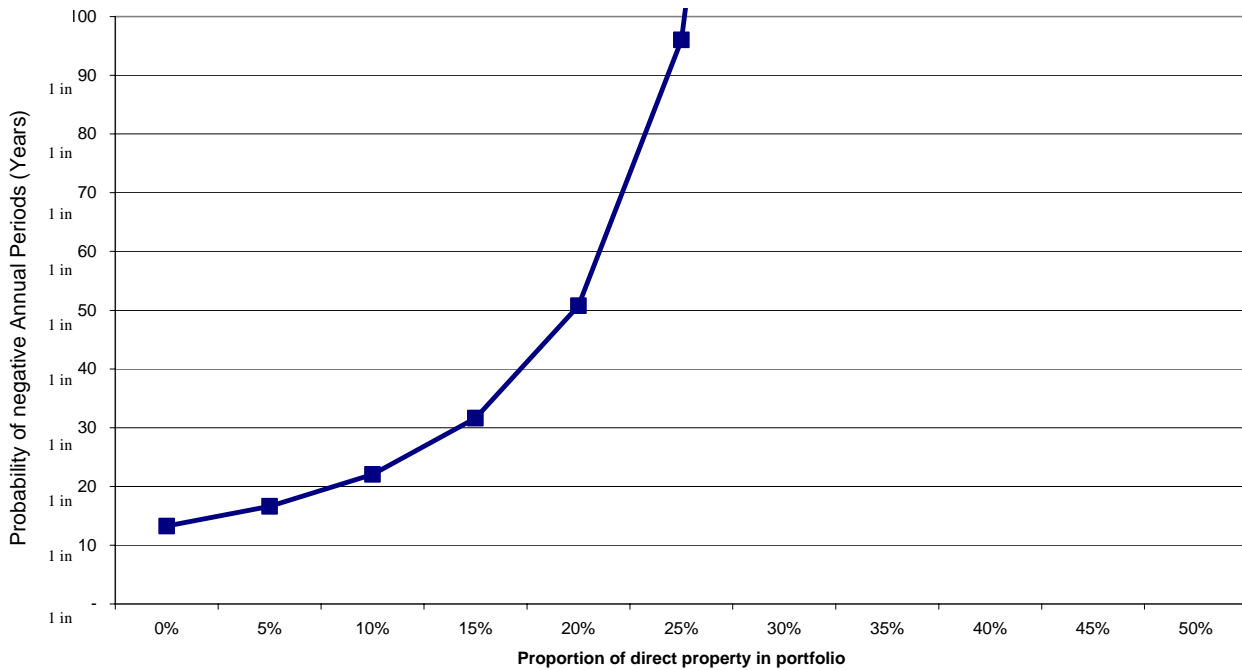
Direct property and each component have provided very strong income returns and very low volatility. The strong income underpins property as an Absolute Return investment.

	Income Return	Income Volatility
Australian Shares	3.6%	1.2%
Overseas Shares	1.4%	0.2%
Residential Property	3.3%	2.9%
Listed Property	7.1%	2.2%
Fixed Interest	5.8%	3.5%
Cash	5.4%	0.2%
Managed Funds	4.4%	1.0%
PCA Composite	7.2%	0.1%
PCA Retail	7.3%	0.2%
PCA Office	6.9%	0.1%
PCA Industrial	9.0%	0.4%
Inflation	2.6%	

Appendix 3 ADPIA Investment Report (Extract) Direct property within a balanced (60% growth asset) portfolio (10 year analysis to 30 June 2006)

Property within a Diversified Portfolio Reduced Probability of Negative Return

This graph represents the probability in years of a negative annual return for a range of standard portfolios with increasing proportions of direct property.



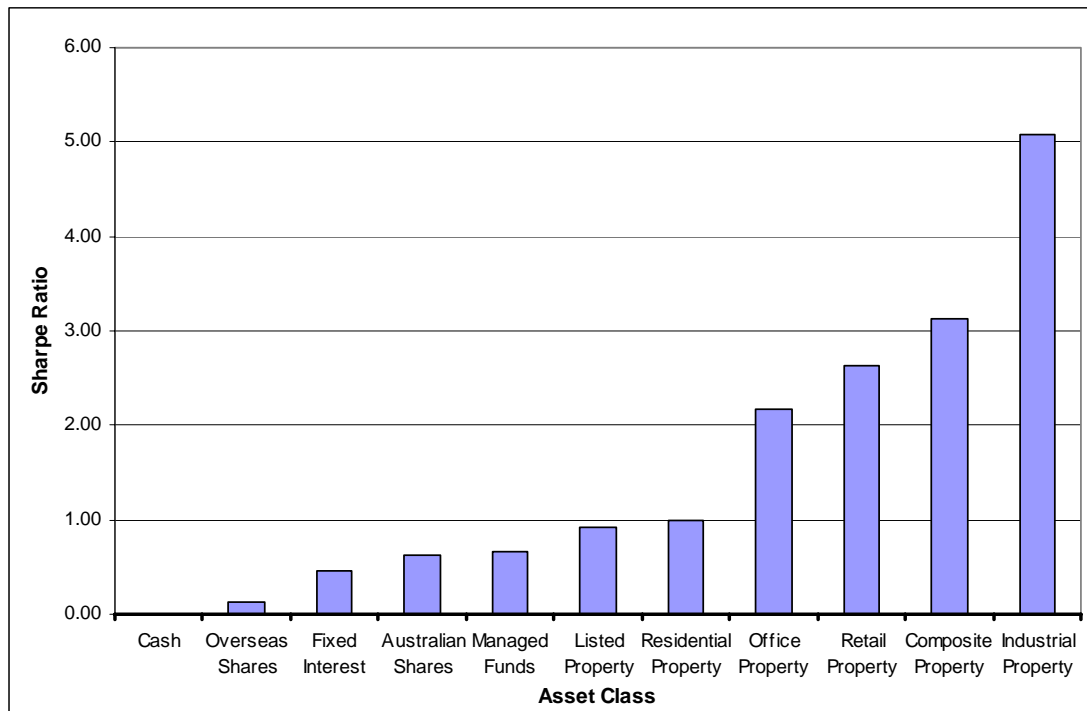
When included in a balanced (60% growth) portfolio, direct property would have greatly reduced the prospect of a negative annual return.

Proportion Direct Property	Probability Negative Annual Return
0%	7.54%
5%	6.01%
10%	4.53%
15%	3.16%
20%	1.97%
25%	1.04%
30%	0.43%
35%	0.12%
40%	0.02%
45%	0.00%
50%	0.00%

Appendix 4 ADPIA Investment Report (Extract) Sharpe Ratio measured after fees and costs with nil tax. (10 year analysis to 30 June 2006)

Reward and Risk - Sharpe Ratio

This graph represents 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. An outcome above 0.5 is considered to be good. All costs and fees have been attributed.



It is clear that direct property and the components provide the strongest gains on a volatility adjusted basis.

Asset Class	Sharpe Ratio
Australian Shares	0.62
Overseas Shares	0.13
Residential Property	1.00
Listed Property	0.92
Fixed Interest	0.47
Cash	0.00
Managed Funds	0.66
PCA Composite	3.13
PCA Retail	2.63
PCA Office	2.16
PCA Industrial	5.07