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Direct property remains most reliable

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DIRECT property investments continue to deliver the most stable returns to investors despite the volatility in the marketplace over the past two years, according to a report.

The Australian Direct Property Investment Association Investment Performance Report, compiled by Atchison Consultants, found the sector's returns were 10.1% over 10 years and 6.9% over the past 20 years.

It also provided income returns of 6.7% per annum over 10 and 6.9% over 20 years. Importantly, once again it did this at the lowest level of volatility and lowest downside risk of any investment.

ADPIA president Linden Toll said while the volatility of the past two years had impacted returns, the traditional property benefits of strong total returns and low downside risk had remained evident.

Toll said over-gearing had been responsible for much of the pain in property markets in the past two years.

He added that a conservative level of gearing was still a very effective way of enhancing returns.

Property investment returns were reduced by almost 20% over five years for investors in listed rather than unlisted property investments.

Investors in direct property achieved a 9.8% return over the past five years to June 09, against an -8.6% for AREITs. The direct property returns also carried a much lower level of volatility – 5% compared with 21.8%.

The returns were also more favourable over ten years with a return of 10.1% and volatility of 3.6% for direct property. AREITs delivered just 2.1% with 16.7% volatility.

Atchison Consultants managing director Ken Atchison said it was clear that liquidity in property had a significant detrimental impact on investor returns.

“Around the world baby-boomer investors were seeking high levels of income. What this led to were complex listed property structures that were artificially feeding income through complex development and hedging structures rather than pure rental returns.

“For a while LPTs produced strong returns, but what we now know is that these structures were unsustainable,” he added.

The Report showed that LPT returns outperformed direct property from June 89 to June 07. However, since the market downturn commenced in July 07, the returns from direct were stronger than those from LPTs.

The report also showed that direct property reduces negative annual returns in diversified portfolios.

Toll said evidence is clear that the inclusion of direct property in diversified investment portfolios can reduce the chance of negative annual returns.

“Additionally, secure income streams from sound tenants with leases structured for growth in rental income, provides the stability for which property investors have been rewarded,” he added.

The study also shows investors should be increasing property allocations from 5 to 10% to 20% in balanced, growth and high growth portfolios.

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