WENDY PRIESTLY PMC President – Australia's most successful female investor

Long-term property returns

As many investors know, property, like other growth assets, has had periods of strong growth and periods of slower growth. But what have been the results over the last 20-odd years?

Rismark International provided a research study in August 2013 that when volatility and risk are factored into the investment equation, property comes up ahead on return-for-risk comparison compared to Australian equities. A 20-year equity investment held from 1993-2013 had a 9.9 per cent per annum growth while property held for the same time had a 9.8 per cent per annum growth rate. This return is made up of capital growth and rental growth or net yield to determine per annum growth.

The report indicates that as residential property is a lot less volatile, so on a return for risk comparison, property investment has significantly outperformed equities.

However, when reading into the details of the report, it is suggested that for the property investors that a diversification approach has been recommended. As with other asset classes, the same is held true for property returns. It states that individual properties have a much higher volatility and so there is a need to ensure a property portfolio is diversified. But what was meant by diversification? The report suggests that a diversified residential property portfolio would typically include up to six properties spread around the major capital cities.

Shane Oliver from AMP Capital also supports this view of the long-term stability of property returns. He said that extending back to 1926 data shows residential property has returned about a total return of 11.1 per cent per annum and equities 11.4 per cent per annum. But, again, factoring in the lower volatility that a residential property portfolio carries, property is the better long-term performer.

Looking at a mixture of property locations, Tim Lawless from RP Data indicates again that volatility occurs around the capital cities. He stated in August 2013 that the spread of value returns over the past 10 years from different capitals reflects the underlying volatility, with Sydney returning about 2.5 per cent per annum, compared to 8.5 per cent per annum in Perth and 9 percent per annum in Darwin. Sydney has certainly been a low performer over the last 10 years, but over the last 12 months Sydney prices have grown a dramatically 6.5 per cent and are set with low levels of supply and increasing levels of unmet demand to commence their upward growth cycle in a very strong movement. Perth as well has been a great performer with an 8.3 per cent values growth.

According to PR Data and Rismark, Perth and Sydney have enjoyed very high total (capital growth and rental yield) returns indicated by Perth reaching 13.3 per cent total returns and Sydney 11.2 total returns.

So what does this hold for long-term returns for property over the next 10 to 20 years? RP Data and Rismark's Housing affordability is showing a decline to levels last seen in 2002 and in the depths of the GFC. With housing affordability becoming easier this would suggest a probability that those currently renting would attempt to make a move to purchase a home. However, with residential housing starts at levels that were the same 20 to 40 years ago supply is not likely to be growing quickly in the near future. This puts pressure on already low levels of housing supply forcing demand for homes and prices of these homes higher in Sydney.

But what type of property in the major capital cities are the facts pointing to as being the better selection into a residential property portfolio. Australian Property Monitor figures show that apartments are becoming the property of choice in Sydney as prices continue to grow at a quicker rate than for homes and rents close to those of homes.

APM figures show that medium apartment price growth over the past five years at 23.6 per cent, leading the house price growth at 17.1 per cent. The medium rent for the June quarter was $500 a week for houses and $470 per week for apartments.

Reasons for strong demand for apartments stem from a lifestyle that wants less responsibilities at a place to live and more capacity to enjoy the outdoors, social and working life style choices.

So for residential property investors what should be the take-home message to build your property portfolio? Buy between five to seven properties across the major capital cities that address the life style wishes of a growing urban population. Do this and in 10 to 20 year's time you would have access to a large amount of equity and rental growth that was achieved through less contribution of the investors and more through contributions of others.

This is why I like property as a long-term investment choice.

PMC TRAVEL

Upcoming trips:

- PMC Retreat Whitsunday Islands March 31-April 6 2014
- Princess Cruise Maiden Voyage Venice to Barcelona May 2014
- Scenic Cruise Amsterdam to Budapest June 2014

Submit all enquiries to Club Travel consultant Sharyn Bojczenko:
P: (03) 9850 1046 Mob: 0407 551 567
Email: sharyn.bojczenko@bigpond.com
In conjunction with Pan Australian Travel, 2/212 Cardigan St Carlton Vic 3058
ACN 008 871 183