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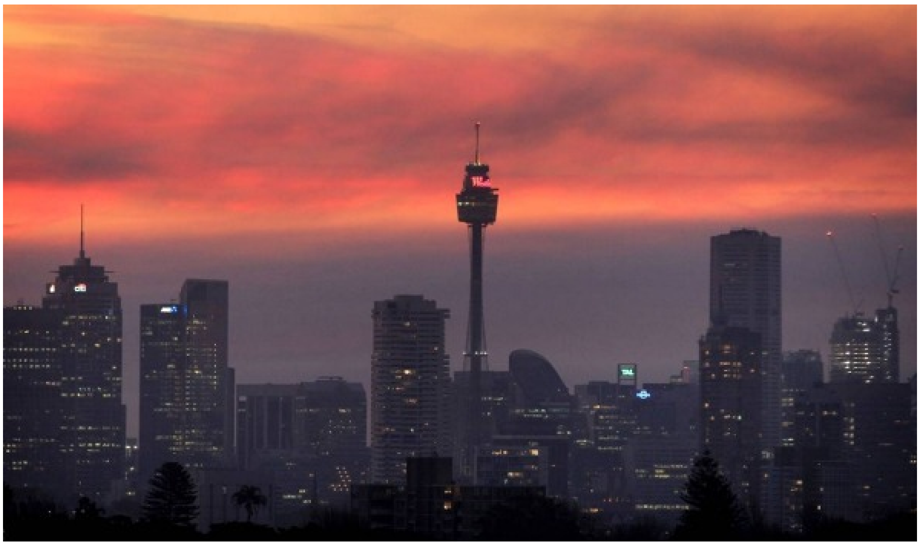
Commercial property smashes housing as investment class



Commercial property has been a better performer than residential over the past 10 years. **James Alcock**

by **Larry Schlesinger**

Investing in commercial property has delivered better average returns over the past 10 years than investing in houses and apartments, new analysis shows.

On a total returns basis – income yield combined with capital growth – commercial property delivered investors an 8.9 per cent average return per annum between January 2005 and December 2015, according advisory firm Atchison Consultants.

Investing in residential property returned 7.4 per cent, better than Australian shares (5.5 per cent) and managed funds (5.3 per cent), but well below the returns generated from retail, offices and industrial property.

Atchison Consultants managing director Ken Atchison said income was a key component of the total returns generated from commercial property.

"It's significantly higher than shares and pretty stable. It explains why international capital has come looking for Australia commercial property. In a low interest rate environment, the income attraction is material," Mr Atchison said.

He added that yield levels are significantly lower in residential than they are in commercial property, "which just about explains the difference in returns between the two asset classes".

Looking across the commercial property sectors, Mr Atchison said industrial property was a sector to watch as it becomes increasingly focused on logistics, which services the fast expanding online retail market, among others.

"If you're looking for exposure to retail property, you might be better off investing in the logistics side rather than malls," he said.

GFC impact

A-REITS managed a woeful 2 per cent total return according to Atchison Consultants, but with the average skewed by the impact of the global financial crisis when the then highly-geared sector collapsed as property values plummeted and banks called in their loans.

With gearing now greatly reduced, listed property trusts have become strong performers, growing distributions annually and generating strong share price gains.

"The GFC was brutal for the listed property market, but it is has started to recapture some of those losses though there is still some catch up to do," Mr Atchison said.

"A-REITS are outperforming the market materially in 2016."

The Atchison Consulting figures show that over 25 years, equities and retail property have performed the strongest with total returns in excess of 10 per cent and with residential property outperforming commercial property as an asset class.

But in more recent times, residential rents have not kept up with house price growth, generating very low net yields (between 2-3 per cent in the capital cities).

By comparison, prime commercial property still offers net returns of between 4 and 5 per cent despite significant cap rate compression in recent years.