

## Investment Performance Report - Key Findings

10 Years and 25 Years to December 2017

May 2017

### Key Findings

The performance of direct property has been examined in the context of major asset classes. The report is the latest in a series produced since 2002.

Analysis of the performance of major investment assets available for investors has been undertaken over 10 and 25 years to December 2016.

Analysis of the key attributes of major investment assets has been undertaken. Key attributes include the following:

- Total returns
- Variability of total returns
- Real total returns
- Income returns
- Variability of income returns
- Returns for variability – Sharpe Ratio
- Downside risk
- Prospect of negative annual return

Major asset classes include the following:

- Direct property
  - ◆ Retail
  - ◆ Office
  - ◆ Industrial
- Australian shares
- Managed Funds
- Overseas shares
- AREITs
- Residential property
- Australian fixed interest
- Cash

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Total returns and volatility of returns after costs and fees and before tax over 10 years and 25 years to December 2016 are shown in the following table. Office property achieved highest total returns over 10 years to December 2016, followed by Direct property. Retail property achieved highest total returns over 25 years to December 2016 followed by Industrial property.

**Total Returns and Volatility of Total Returns and Inflation**  
**10 years to December 2016**

**25 years to December 2016**

Asset Class	Total Return	Volatility	Real Return	Total Return	Volatility	Real Return
	(% p.a.)	(% p.a.)	(% p.a.)	(% p.a.)	(% p.a.)	(% p.a.)
Australian Shares	4.4	14.5	1.8	9.4	13.2	6.9
Overseas Shares	4.6	12.8	2.0	6.8	13.2	4.3
Residential Property	7.1	3.8	4.5	9.2	4.1	6.8
AREITs	0.3	19.0	(2.3)	8.5	14.3	6.0
Fixed Interest	6.1	3.4	3.5	7.0	4.1	4.5
Cash	4.1	1.1	1.5	5.1	1.1	2.7
Managed Funds	4.7	7.6	2.0	7.9	7.0	5.4
Direct Property	8.1	3.2	5.5	8.7	2.9	6.3
Retail Property	7.7	2.6	5.1	10.3	2.3	7.8
Office Property	8.2	3.7	5.6	7.6	3.7	5.1
Industrial Property	8.0	3.8	5.4	10.2	3.1	7.8
Inflation	2.6	0.9		2.5	1.2	

Source: S&P/ASX, MSCI, REIA, CBA, BLOOMBERG, RBA, PCA/IPD

Retail, Direct, Industrial and Office property have provided at or below median volatility of total returns over both 10 and 25 years, as shown in the table above. Total returns from AREITs were significantly lower than from Direct property over 10 years. This is a result of significant set backs during the global financial crisis for AREITs which forced recapitalisation on dilutive terms.

Office, Direct, Industrial and Retail Industrial property have provided strong real total returns of 5.1% p.a. or greater over 10 years. Retail property, Industrial property, Australian shares and Residential property have provided strong real total returns of 6.8% p.a. or greater over 25 years.

Income returns and volatility of income returns over 25 years to December 2016 are shown in the following table. Direct property and all property sectors provided high income returns of 6.7% p.a. or greater. AREITs have provided a high income return of 7.0% p.a. with higher volatility of income returns. Overseas shares provided a low income return of 1.7% p.a. Similar income returns have been provided over 10 years.

## Income Return and Volatility of Income Return 25 years to December 2016

Asset Class	Income Return (% p.a.)	Volatility (% p.a.)	Real Income Return (% p.a.)
Australian Shares	4.2	1.0	1.8
Overseas Shares	1.7	0.2	(0.7)
Residential property	3.2	0.4	0.7
AREITs	7.0	2.5	4.5
Fixed Interest	5.1	3.9	2.6
Cash	7.0	0.9	4.5
Managed Funds	4.6	1.2	2.1
Direct property	6.9	0.3	4.5
Retail property	6.9	0.4	4.5
Office property	6.7	0.3	4.2
Industrial property	8.3	0.5	5.8
Inflation	2.5	1.1	

Source: S&P/ASX, MSCI, REIA, CBA, BLOOMBERG, RBA, PCA/IPD

Industrial, Direct, Retail and Office property have provided strong real income returns of 4.2% p.a. or greater and very low volatility of income returns over 25 years to December 2016 as shown in the table above. AREITs have provided a strong real income return of 4.5% p.a. with higher volatility of income returns.

Strong income returns underpin property as an absolute return investment.