

Office offers superior returns

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OFFICE property achieved the highest total returns over the past decade for investors when compared with other direct property and major asset classes, according a new report from Atchison Consultants and the Property Funds Association.

Numbers for AREITs suffered due to the global financial crisis, whilst over the past 25 years retail property brought the highest total returns, followed by industrial property.

Atchison Consultants considers the respective time frames the appropriate minimum for individuals saving for retirement “and more likely 25 years, being the bare minimum working life.”

The office sector showed a total return of 8.2% per annum over the past 10 years, followed by industrial property (8.0%), direct property as a whole (8.1%) and retail property (6.6%).

As well as having low volatility of 3.8% per annum, 3.7%, 3.2% and 2.6% respectively, they clearly outperformed AREITs, which showed a total return of 0.3% and volatility of 19.0%, a result of “significant setbacks during the global financial crisis for AREITs, which forced recapitalisation on dilutive terms”.

Total residential property returns were at 7.1%, with a relatively low volatility of 3.8%.

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

Over 25 years retail property returned 10.3% per annum with a low volatility of 2.3%. Industrial was close behind at 10.2% with volatility of 3.1%, office property at 7.6% and 3.7%, and direct property 8.7% and 2.9%.

Residential property returns were at 9.2% over the period, with a 4.1% volatility, and whilst AREITs returned a strong 8.5% volatility was high at 14.3%.

“Office, direct, industrial and retail industrial property have provided strong real total returns of 5.1% per annum or greater over 10 years. Retail property, industrial property, Australian shares and residential property have provided strong real total returns of 6.8% per annum or greater over 25 years,” Atchison Consultants’ Ken Atchison said.

Australian shares returned a total of 4.4% over the past decade with 14.5% volatility, and 9.4% over the past 25 years with 13.2% volatility. Overseas shares showed 4.6% per annum returns and 12.8% volatility over the past decade, and 6.8% and 13.2% over 25 years.

Real income return over the past 25 years was led by industrial property with 5.8% per annum, with direct property, retail property (both 4.5%) and office property 4.2% also performing strong with low volatility rates of 0.5% or below.

AREITs returned 4.2% per annum but with a 2.5% volatility, and residential property 0.7% per annum with a low 0.4% volatility.

“Strong income returns underpin property as an absolute return investment,” Atchison said.

The report collates data from a range of sources, including S&P/ASX, MSCI, REIA, CBA, Bloomberg, RBA, PCA/IPD.

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