



Survey signals slowdown in returns for property investment in Australia

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The years of high returns from property investment in Australia may be over as yields start to tighten, according to a survey of property fund managers published today.

With the exception of one year, the Australian property market has generated a return of 9% to 10% annually over the 20 years to June 2017, according to Atchison Consultants for the Property Funds Association.

Atchison Consultants, which surveyed 27 fund managers and the 66 unlisted property funds which they manage, found that returns turned negative for these funds in 2009.

Volatility of returns from the property market is attributed to the capital return component, which has fluctuated between minus 12.4% and plus 11.8% a year, the firm said.

“Property income returns remained relatively stable, with a return of 7.2% a year and a volatility of return of 0.5% over the same period,” the report said.

However, according to Atchison Consultants: “An absolute return of between nine and 10% per annum, which was achieved historically, is unlikely over the next three to five years.

And over this period, Atchison Consultants said: “Based on the forecast property return of 7.4% and income return of 5.9%, a forecast absolute return is 6% to 7.5%. An absolute return of 6% to 7.5% per annum may be achievable reflecting rental income yields and moderate gearing.

“This range would be an appropriate absolute hurdle rate of return for fund managers. A great challenge for both managers and investors in an era of very low interest rates is the changing view of appropriate benchmarks and hurdles.”