'If you want to be in retail, buy logistics not malls'

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On the back of a global logistics boom, the once humble warehouse has surged past office and retail investments to be the strongest performing property asset class over the last 10 and 25 years, according to new analysis by Atchison Consultants.

Mega sheds: Amazon's Melbourne warehouse is part of the shift towards owning distribution centres rather than malls.

Over the 10 years to December 2018, industrial property delivered an average total return of 9.4 per cent per annum, compared with 8.8 per cent for offices, 8 per cent for retail investments and 6.8 per cent for residential property.

Only A-REITs (10.3 per cent) and overseas shares (9.5 per cent) delivered a higher average annual return over the past 10 years, but at four times the volatility of industrial assets.

Three years ago it was a different story, with retail assets delivering stronger annual return than industrial property over both 10 and 25 year historical time frames, according to the same analysis by Atchison Consultants.

Atchison Consultants managing director Ken Atchison said the latest figures told the "logistics story" and that the way to participate in retail was through owning distribution centres rather than malls.

"Logistics is the part of retail you want to be in, not shops," he told The Australian Financial Review.

"I think the big super regional malls will be OK, but not the mid-size malls," he added.

Mega-warehouses

The outperformance of industrial property has been most evident in the success of ASX-listed Goodman Group, which has become a global logistics leader by developing mega-warehouses for the likes of Amazon, Walmart and DHL.

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Other listed fund managers such as Charter Hall and Dexus have also benefited from their heavy exposure to industrial and office property, while unlisted platforms such as Maquarie-backed LOGOS have also ridden the e-commerce wave.

By contrast retail property stocks in Australia and globally have waned in the past few years as the focus has shifted from the shopfront to supply chains amid rising retail vacancy rates.

According to Atchison Consultants, industrial property was also the strongest performing asset class on an income-only basis, delivering an 8 per cent average annual return over the past 25 years, compared with returns above 6 per cent for office and industrial property.

Demonstrating how important negative gearing is to residential property investors, this asset class managed an annual income return of just 3 per cent over the past 25 years, or 0.5 per cent in real terms.

For very long-term holders of assets, industrial property outperformed all other asset classes (including shares, A-REITS, and managed funds) delivering an average total return of 11.1 per cent, according to the Atchison Consultants' analysis, ahead of retail (9.9 per cent), offices (9.4 per cent), residential property (9.1 per cent), A-REITS (7.4 per cent) and Australian shares (8.3 per cent).

The analysis also suggests investors – if they have the means – may be better off in the long run investing directly in property rather than through a fund manager, with direct property generating total average annual returns over the past 10 and 25 years of 8.6 per cent and 9.8 per cent respectively.

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By contrast, managed funds delivered total average annual returns over the past 10 and 25 years of 7.9 per cent and 7.1 per cent respectively – before accounting for fees.