



Property - is it really a safe haven?

It takes more than a global property slump to shake Australians' love affair with bricks and mortar. And it's to do with the myth that residential property always increases in value, while other assets – particularly shares – are less dependable.

Over the last 12 months, many capital cities have reported negative property returns. Depending on which city, suburb and type of property, returns have varied enormously.

An over-reliance on property

Australians have a special affection for property because it is an asset with which we are familiar. Home ownership levels have hovered around 70 per cent for decades, while a further 21 per cent of households own investment property.

Home ownership has many advantages, not least it prevents your landlord selling your rental property from under you, and forcing you to pack up and move.

A successful property investment on the other hand needs to deliver a sustainable rental yield and the potential for long-term capital gain. To be realistic, the rental yield needs to factor in agent's fees, ongoing maintenance and periods where the property will be untenanted.

If we were to contrast the rental yield from property with the dividend yield from shares, property investors could learn a few things from the way shareholders receive their money.

Listed companies always retain a portion of their profits to reinvest in their business before paying out any dividends; this is critical to their long-term success. Too many property investors work on a '100 per cent pay-out ratio' when it comes to their profit from rent. This leaves little for reinvestment in maintenance to keep their property in good shape.

Buying residential property as an investment can be expensive, making it difficult to achieve adequate diversification. While it's possible to achieve this diversification by investing in a managed fund, very few property funds include residential property. But there are other advantages of managed property funds: small amounts can be invested regularly; they own blue chip commercial properties; tenants are often household company names; and, the properties are often spread across Australia.

Listed property funds and shares can be sold if necessary, but you can't sell off your investment property one room at a time if you need to raise cash or take profits.



Property can take months to sell, compared with days for listed investments, and transaction costs are relatively high.

Tracking property returns

Part of the traditional appeal of property is the perception that bricks and mortar provide a safe haven from the wild swings of the sharemarket, but based on recent volatile returns, that may be changing.

For the first time, property investors can track daily movement in house prices across Australia in the same way share investors watch the All Ordinaries Index, thanks to a new home value index. And guess what? Property values go up and down, just like shares!

The other issue is transparency. Real house price growth figures are inflated - they include pure growth, but also growth as a result of expenditure on major home renovations and even more minor capital upgrades, such as new decks, kitchens and bathrooms.

Beating inflation

Short-term price fluctuations are not the only thing property and shares have in common. Both are classed as growth

assets. This means they offer the potential for strong capital growth over the long run, unlike defensive assets such as bonds and cash, which are bought primarily for income.

The chart below shows that in the two decades to December 2011 after-tax returns from shares and property comfortably beat annual inflation, though cash barely kept pace.

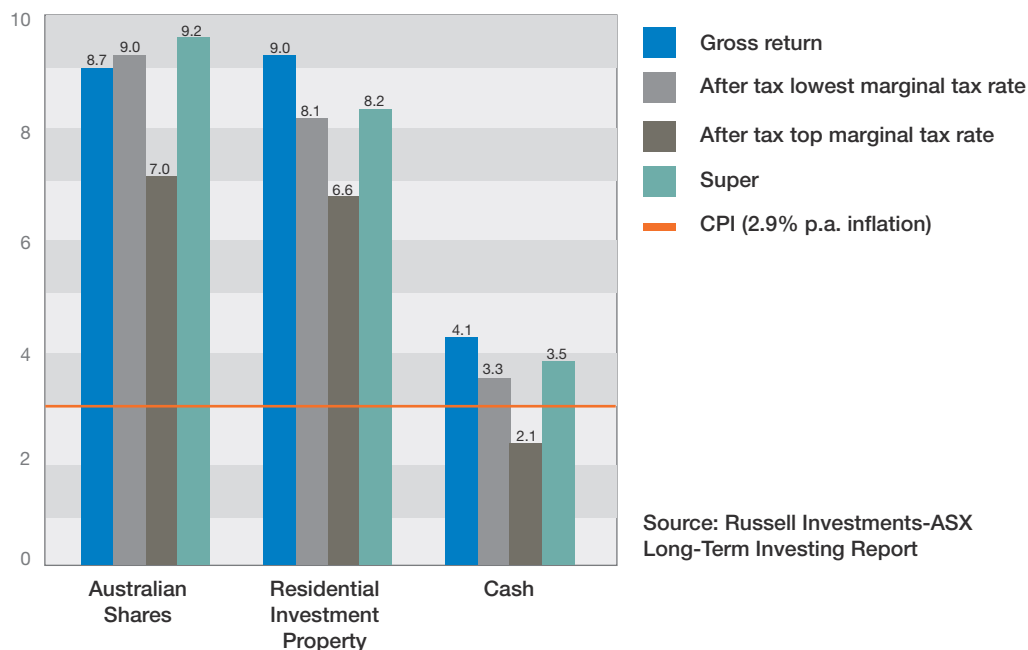
The main reason for investing a portion of your savings in growth assets is to prevent your investment returns being eroded by inflation.

The actual return you make on your investments will not only depend on the investments you choose but when you buy and how long you hold them. If another period had been selected, the actual returns may have been different, but history tells us shares and property would still deliver better returns than cash and bonds over the long term.

While property has been a source of wealth for generations of Australians, recent price falls demonstrate it should be just one of the building blocks needed for an all-weather investment portfolio.

Investment returns for the 20 years to December 2011

Returns % p.a.



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