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Global investors ramp up investment in commercial property

Global investors are increasing their allocation to commercial property, with unlisted property funds providing important access to widespread property opportunities.

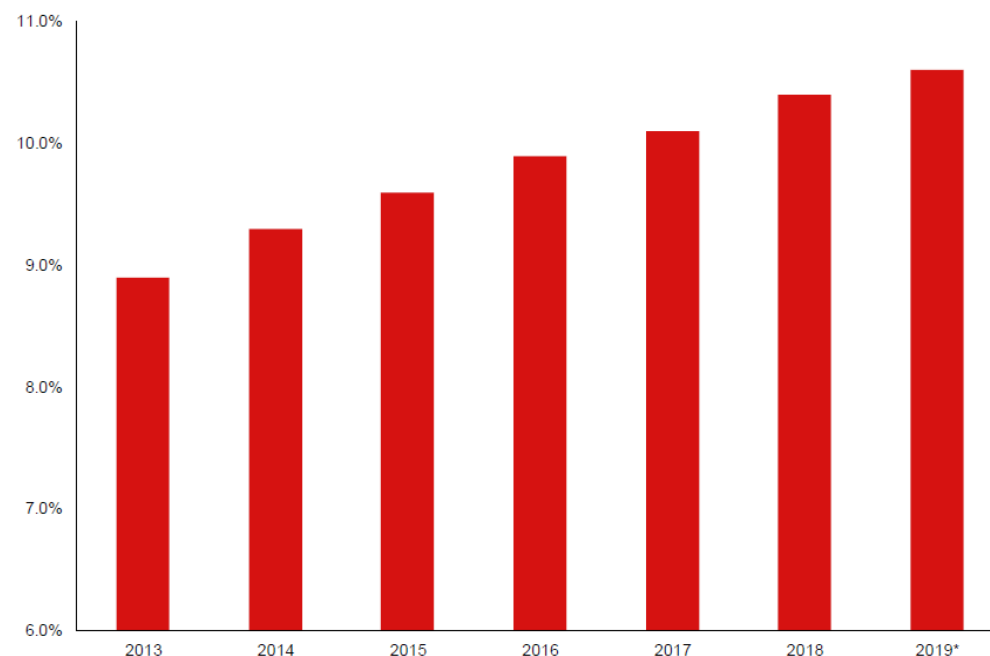
Strong returns have been a key driver of investment activity: the ability to tap into capital growth combined with income from rents is a powerful mix for investors.

Research by Zenith Investment Partners, MSCI, the Property Funds Association and the Property Council of Australia has shown Australian unlisted property has delivered strongly for the last five years, with total returns at 22 per cent per annum (to 31 December 2018) – Australian equities have delivered 5.6 per cent per annum for the same period.

Unlisted property also brings attractive diversification benefits, with a low correlation to other asset classes, including equities and listed property, giving it an important place in a balanced investment portfolio.

Commercial property allocations have increased in recent years as global interest rates have fallen. Low interest rates mean direct property along with its strong income yield is increasing in demand locally and by sophisticated offshore investors.

With the “lower for longer” forecast for interest rates, it’s likely commercial property both in a global sense and in relation to Australia will retain its attractiveness for some time. The following graph shows how global real estate allocations have increased from 2013 to 2019:



*projection by Cornell University
Source: Cornell University

Retail and institutional investors in Australia have access to top quality direct property funds and can easily access the sector.

The flood of global capital into property has stoked core property in Australia as an asset class with a current strong focus on office and industrial. Some sectors, notably retail, have underperformed in recent periods. But more opportunities in alternative property asset classes continue to emerge, including funds dedicated to agricultural property, healthcare property, student housing, build-to-rent, and co-working.

Australian unlisted property continues to punch above its weight in a global sense due to some key factors, including the quality of the assets available, the transparency of the market, and the quality of the funds available and the management platforms behind them.

Spending on infrastructure is considered a major property driver and global investors have noted the increase in infrastructure spending across Australia's major cities.

Investment from China may be more subdued, but investors in other areas including Singapore, Hong Kong, Japan and South Korea have stepped up in the hunt for institutional grade Australian property assets.

A weaker Australian dollar has made Australian real estate more attractive to global investors.

Unlisted property also provides ample opportunity for Australian investors to further diversify into overseas markets, giving access to properties which would not be otherwise attainable.