



December 2019

## Unlisted property a proven recipe for investment returns:

### Property Funds Association

Recent data shows unlisted property has been an outstanding performer for Australian retail and institutional investors over a long period of time, providing stability and performance to investment portfolios, when compared with other asset classes.

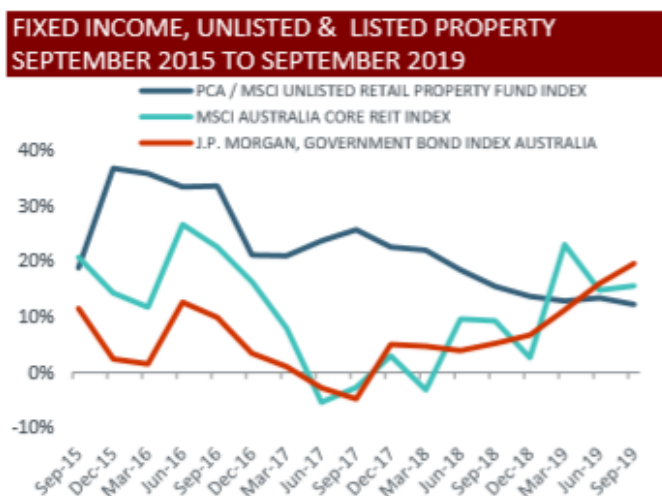
Unlisted property combines two standout ingredients, income from rents and capital growth in property value, which are proven as a recipe for investment returns.

This recipe has delivered annualised returns of 21% per annum over the last five years to 30 September 2019, according to data released by Zenith Investment Partners, MSCI, the Property Funds Association and the Property Council of Australia. The 12 months return for unlisted property to September 2019 was 12.3%.

Unlisted property's five year 21% annualised return compares well with other asset classes during this period:

- Australian equities delivered 9.5% per annum
- Australian listed property delivered 12.8% per annum
- Global equities delivered 8.0% per annum
- Fixed income delivered 8.0% per annum
- Cash delivered 2.1% per annum

(Sources: MSCI, RBA, Barclays Capital)



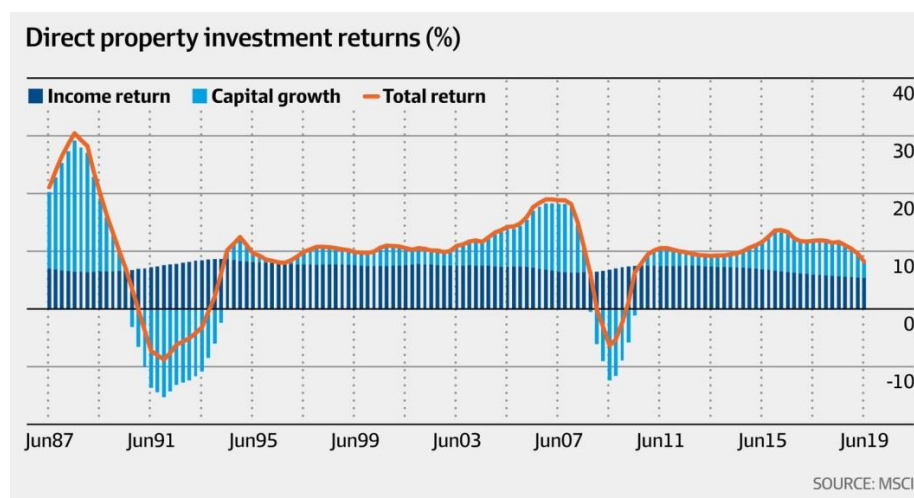
The chart shows greater stability in returns from unlisted funds when compared with listed REITs.





Can unlisted property keep it up? PFA stresses that past performance is not necessarily an indicator of future performance. Conditions in direct property suggest such sky-high returns may be more challenging in the short-term, though any future property returns need to be weighed against the historic lows currently delivered by cash investments. Property has a strong track record at delivering reliable income.

If we consider the bigger picture and look farther back, unlisted property has proven remarkably consistent over decades – this MSCI chart tracks investment returns from unlisted property across more than 30 years:



The two major dips in performance occurred during the early 1990s recession and the GFC, when all asset classes fell markedly – for example, during the GFC, Australia’s share market halved in value.

But unlisted property’s all-important income returns remained consistent over this time.

Aside from performance, unlisted property offers attractive diversification, having shown a low correlation with equities, bonds and listed property. Opportunities to diversify within unlisted property continue to flourish, as investors benefit by investing across various sectors including office property, retail, industrial and logistics, agriculture, and alternative assets such as healthcare and student housing.

Any investment comes with risk and there are obvious dangers from becoming over-exposed to any asset class, whether unlisted property or shares. Key to minimising risk is understanding the asset class and where each investment fits within a well-constructed portfolio.

Investors need to understand each investment has a different risk profile, different levels of liquidity, different return characteristics, and understand that past performance does not necessarily indicate future returns.





PFA encourages investors to:

**Understand which strategies suit you:** unlisted property is a proven long-term contributor to a well-balanced investment portfolio. Investors should seek quality independent advice when considering any investment.

**Understand liquidity:** unlisted property investments have varying levels of liquidity, meaning it may not always be possible to withdraw investment funds at short notice. Many unlisted property investors prioritise steady income returns over liquidity with distributions often paid on a monthly or quarterly basis. Understanding your personal investment needs are an important first step to understanding how liquidity may affect you.

**Understand manager quality:** investors are encouraged to do their due diligence on the property fund managers available, to identify quality.

**Understand the level of risk and the gearing:** excessive gearing in any investment can increase the risk. Understanding the gearing involved in any investment is important. But so is understanding your individual risk profile – everyone has a different level of risk tolerance. Again, independent quality investment advice is useful.

