

The money puzzle

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Will it be shares or property?

Many people find themselves on the horns of a dilemma when it comes to investment, writes property editor Michelle Hele

IT'S a question those with money to invest often struggle with. It's also one on which all the experts seem to have a different opinion – is it better to invest in property or shares?

With both markets taking a recent battering from the global financial crisis, each asset class has its positives and negatives.

According to the latest Russell Investments and Australian Securities Exchange Long Term Investment Report, it all depends on how much time you have.

It found over 20 years shares offer a better return, but if you only want to tie your cash up for 10 years residential property is the way to go.

According to Colliers International researcher Lachlan Walker, residential property has performed much better in recent years.

He says traditionally, shares and property are strongly correlated with both asset classes appearing to move together closely – although property responds slightly slower than the All Ords Index.

"Recently however, a significant variation has been recognised. Property and shares have become disparate in their trends," he says.

Walker says between December 2002 and June 2007 the sharemarket grew almost continuously and Brisbane residential apartments followed suit.

But once the global financial crisis hit the sharemarket entered a period of substantial decline.

"According to the quarterly data, never before has such a decline been recognised on the All Ordinaries Index," Walker says.

From its peak in June 2007 to its trough in December 2008, the All Ords Index recorded a 46 per cent fall.

Shares began falling in June 2007 but the residential market did not bottom out until December 2008 with the median hitting \$405,000.

"From an overall perspective, Brisbane's inner-ring apartment market has outperformed shares in both the short and longer terms," Walker says.

"The past 12 months has seen the All Ords realise a 2 per cent softening whilst the Brisbane inner apartment market saw a positive 12-month growth of 6 per cent.



NO BULL: All investment strategies need full and proper research, so just don't follow the herd. Picture: Andrew Harrer/Bloomberg News

"The longer five-year term has seen a similar story, with property recording a compounding five-year growth of 6 per cent whilst the All Ords saw zero growth.

"The longer 30-year period does, however, show more comparative returns for shares versus property, however property again recognises stronger returns on an annual basis (8 per cent) as opposed to the All Ords which saw an annual compounding change of 6 per cent."

Walker says at the end of the day neither shares or property are completely foolproof investments and the key was research.

He says property is not a daily traded asset, not as liquid as shares, requires a higher level of investment and can not be sold down in parcels.

It will also not be as profitable in the short term.

"(But) purchasers must look to the future and what will be happening in two years, five years, 10 years' time and the returns expected between now and then.

"This is where value will be derived," he says.

Property investment adviser Simon Pressley of 6-Point Property says residential property is less volatile than the sharemarket.

"History tells us that median residential property values have increased steadily over time whereas fluctuations of share values are much more volatile," he says.

"Shares are highly susceptible to margin calls. Unless a borrower defaults on a property loan I haven't known a bank to call in the loan."

There are risks with both forms of investment that need to be taken into account.

The biggest for property, according to Pressley, is that tenants and interest rate rises can affect returns.

Whereas shares are more liquid than property and if you need cash fast you can sell them a lot quicker than a property.

Pressley says he has seen a surge in investors wanting to buy property to use in the superannuation instead of shares.

"According to the ATO, one in seven taxpayers now owns at least one investment property."