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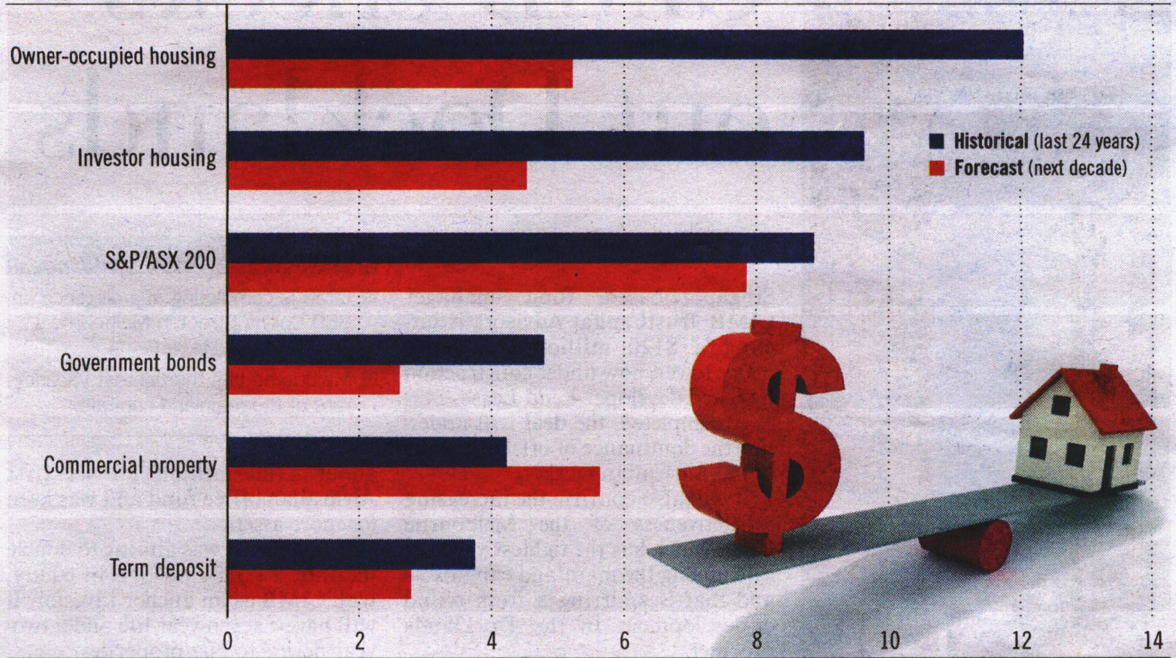
Scorecard

Average annual returns for different asset classes* (%)



*after costs, taxes and gearing

SOURCE: ANZ

ANZ study tells home truth

Ben Hurley

Average returns from residential property will be barely above inflation for the next decade, ANZ Banking Group reports.

In a comparison of past returns on various asset types, ANZ found owner-occupied housing generated average annual returns of 12 per cent over the past 24 years – higher than any other major asset class.

However, the bank forecasts that owner-occupied housing will return about 5 per cent a year for the next decade, which is much lower than for equities or commercial property.

"A big part of that is the fact we're not going to see a repeat of the structural fall in interest rates we saw in the last 20 years," said ANZ head of property research Paul Braddick. "This will mean you don't see price growth anywhere near the double-digit compound price growth ... [of] recent decades."

However, Mr Braddick said ANZ expected the residential sector "will remain one of the least volatile asset classes, so when we look at returns in a risk-adjusted sense, there isn't a lot of distinction to be made across those asset classes".

Asset Returns: Past, Present and Future found returns from owner-occupied housing topped investment housing due to its exemption from capital gains tax. The report factored maintenance costs, stamp duty and agents' commissions into the cost of housing to give a fair comparison and avoid criticism that housing attracted costs that did not apply to other assets.

Returns on equities averaged 8.9 per cent over the past 24 years. ANZ predicts that equities will yield greater returns than any other asset class over the next decade, returning under 8 per cent.

Commercial property was dragged down by weak performance for office and industrial property over most of the 24-year period, despite retail property performing strongly.

"Retail property has done very well but ... relative performance in commercial property will be turned on its head, where retail will underperform the quite solid returns we're expecting for office and industrial," said Mr Braddick.

Commercial property would have the highest raw total returns in the decade to come, ANZ said.

But much of this would come from cash flow and would be taxed at the full marginal tax rate as well as being further reduced by stamp duties.

In the case of shares, a greater proportion of returns would be comprised from capital gains. If held long term, these are taxed at half the marginal tax rate.

Deutsche Bank and other investment banks say household deleveraging is likely to keep house price gains weak for years to come.