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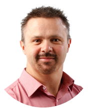
News Opinion

Invest in shares or property? One choice wins by a mile

Real estate and shares both have nearly trebled in value in 20 years, but one of these popular asset classes has more benefits.



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REA Group Economist Anne Flaherty says the property market is seeing a return of buyer demand amid a “pretty strong winter”. “Typically we see fewer properties hit the market in winter, this year the reduction hasn’t been as much as we normally see,” she told Sky News Australia. “We’re seeing more buyers searching and…

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It's a debate that's been around as long as Aussie have been investing: of our two most popular investment assets, which is the best one?

Some swear by the stockmarket and its ongoing handouts of juicy share dividends, complete with tax benefits from franking credits.

Others are among Australia's 2.2 million residential real estate investors and believe property is the best place to park your money.

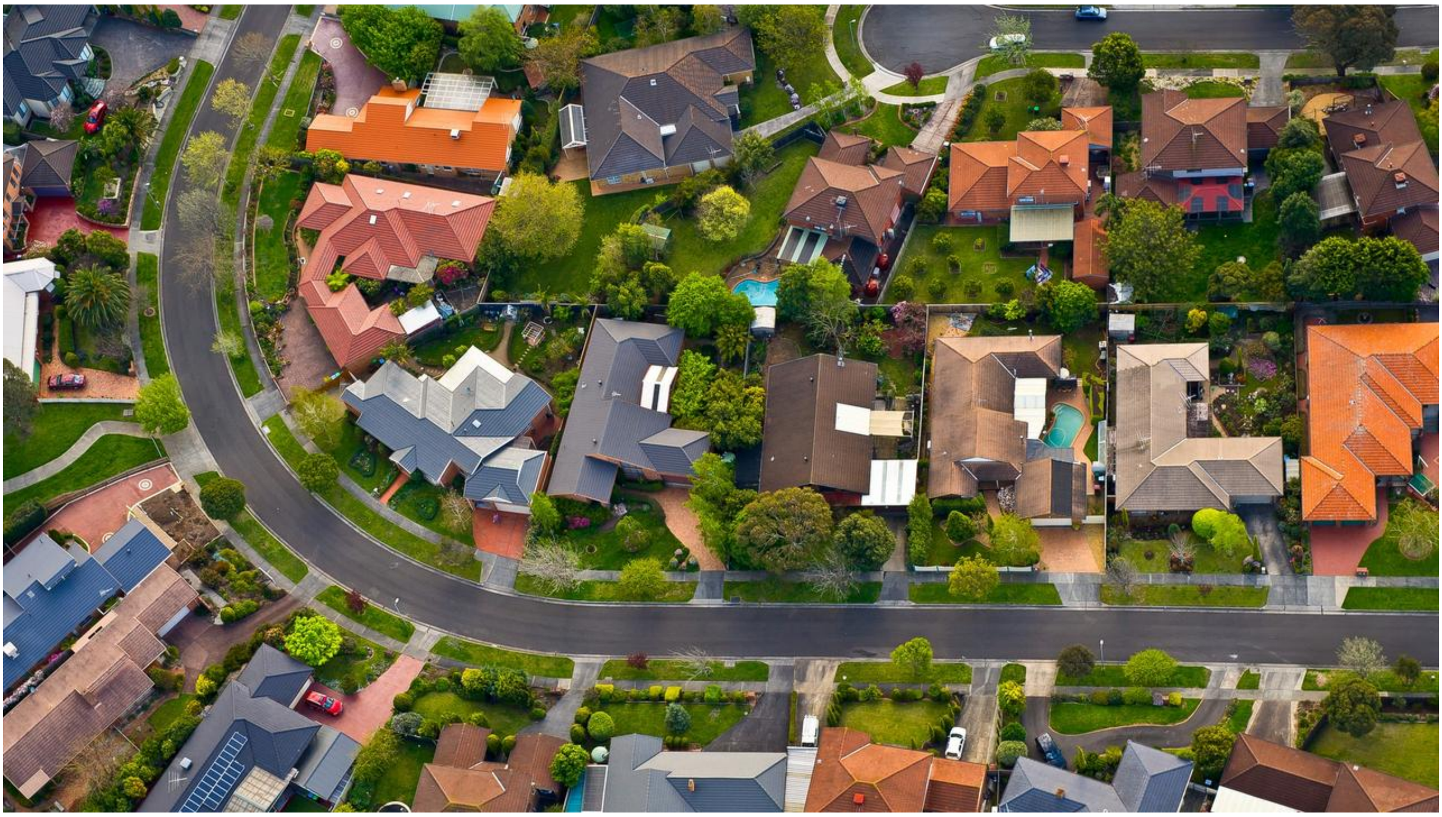
Some say superannuation in number one. Super does have the best tax benefits of all – tax-free retirement anyone? However, it is not actually an investment, but a structure to hold your investments, including shares and property, for retirement.

So we're back to property versus shares.

For me, there is a clear winner. Please welcome to the stage … property.

There are different types of property. Some, such as real estate investment trusts, are having a tough time on the stock market – again – but when most of us think of property it means a traditional bricks and mortar structure providing a roof over our heads.

And that roof is reason number one why property wins.



If you can choose only one asset to own, aim to make it real estate. Picture: iStock

While you might own Woolies shares and be happy gently stroking your supermarket trolley, or share in the profits when buying tech goods at JB Hi-Fi, the shelter provided by a house is unique and valuable. Importantly, it means you don't have to pay rising rents and, once a loan is repaid, can invest the money elsewhere.

Reason number two is the tax benefits of owning a home. Unlike most other assets, including shares, owner-occupiers pay no capital gains tax if they sell for a profit. This is a huge legal tax dodge, where the biggest benefits go to those with the most expensive homes.

Number three: the tax benefits of owning an investment property help offset some of the out-of-pocket costs caused by interest repayments, council rates, insurance, repairs and maintenance. Negative gearing tax deductions are controversial in some circles, but help cushion against investment losses while landlords wait for their properties to become positively geared and actually make a profit.

Property investors also get tax deductions based on the declining value of the bricks and mortar, and curtains, carpets and other fixtures and fittings in some cases.

Reason number four is how real estate equity can be used as a deposit to buy more real estate, or shares. This has become tougher for many amid rising interest rates and banks' borrowing buffers, but accessing home equity can be a powerful wealth-generation strategy.

And number five is the sheer size of a property investment. If you buy $60,000 of shares and the value goes up 10 per cent in a year, you make $6000. But the bigger investments made in property bring bigger rewards: if you buy a $600,000 property and get the same 10 per cent rise in value, you make a lazy $60,000.

Property investment does have a few negatives, including tenant issues and maintenance hassles, but these can be handled by a professional property manager, enabling investors to have a hands-off approach.

Shares have plenty of positives – they're much easier to buy and sell, carry no big costs such as stamp duty, insurance and land tax, and they pay dividends with tax credits attached.

In the end, comparisons come down to performance and timing, and both shares and property have nearly trebled in value between 2003 and 2023.

Real Estate Institute of Australia figures show the nation's median house price rose from $343,000 to $953,000, while the All Ordinaries index that measures the values of our 500 biggest listed companies climbed from 2839 to 7366 points.

Both have been long-term investment winners. But for me, property packs a bigger punch. And I'm betting it will do better in the decade ahead.

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Originally published as Invest in shares or property? One choice wins by a mile

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Anthony Keane writes about personal finance for News Corp Australia mastheads, focusing on investment, superannuation, retirement, debt, saving and consumer advice. He has been a personal finance and business writer or editor for more than 20 years, and also received a Graduate Diploma in Financial Planning.

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