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THERE is something about an investment you can touch and feel which, in part, explains people's passion for residential property.

Shops, warehouses and office blocks have the same "touch and feel" quality but on a much bigger scale. They are becoming increasingly appealing to investors, especially if steady and consistent income is important.

According to Property Investment Research, retail investor demand for commercial property such as retail and office buildings, child-care centres and retirement villages has been rising at more than 25 per cent a year for five years.

While most individual investors lack the funds to buy a shopping centre or service station on their own - let alone engage in property development - it has long been possible to pool funds with other like-minded investors.

Investments in commercial property can be via unlisted or listed property funds or direct through property syndicates, which are often organised through accountants, solicitors or financial services groups.

One advantage of unlisted property investments and syndicates is the lack of correlation with the stockmarket and relatively low volatility.

SYNDICATES

Investing in property via a syndicate generally means you know exactly which properties you own. The manager cannot just buy or sell properties without your specific knowledge and acceptance.

In most cases the investment has a fixed life - often between five and 10 years - after which an exit strategy should be available to investors if they want to get out.

Liquidity could be an issue. Once funds are invested they cannot usually be withdrawn until the end of the term. If a property is sold, investors get their share of the proceeds.

It is common to have some level of borrowing. Typically it is 40-65 per cent of the value of the properties and are non-recourse loans, meaning your liability is limited to the money invested.

The membership list of the Australian Direct Property Investment Association is a starting point for fund managers and other groups offering direct property investment opportunities.

The minimum investment needed to join a direct property syndicate can vary widely. Australian Unity Investments, which has eight property syndicates that own 29 retail, office and industrial properties, accepts minimum investments of $5000.

Eclipse Property Group, part of the Eclipse Financial Group, requires a minimum $250,000, which is matched with a $250,000 non-recourse loan. Investments are generally in only one property.

RETURNS

As with most investments, no returns are an absolute certainty but research into the performance of 11 asset classes in Australia over 10- and 20-year periods to June 30, 2006 found direct property produced very strong total returns.

The study, by Atchison Consultants, found direct property delivered the highest risk-adjusted return of any asset class.

This meant investors in direct property were receiving a greater reward for every unit of risk taken on, in comparison to any other investment class.

The report also found direct property produced the highest levels of income of any asset class in the 10 years to June 30, 2006.

Of course interest rates have risen considerably since then, which has an impact on both returns and costs.

Martin Hession, head of property with Australian Unity Investments, says that, depending on the properties (industrial, retail or office), existing syndicate investors should expect returns of between 6.5 per cent and 8.5 per cent a year in today's market, depending on the level of borrowing.

In the current environment, borrowing is increasingly expensive and investors should pay close attention to the syndicate's level of debt and hedging strategies.

"Well-managed syndicates will have a debt facility that spans the term of the syndicate so investors are not subject to a hike in interest rates when the debt facility comes up for renewal," Hession says. "As long as the manager has fixed interest rates, there will be no change in interest during the term of the syndicate itself."

LOOK FOR QUALITY

Linden Toll, president of the Australian Direct Property Investment Association, says investors should stick to property that offers strong fundamentals supported by solid valuations.

"These fundamentals include desirable location and long average leases to high-quality tenants.

"And ensure your investment is in a diversified portfolio of assets."

TAX BENEFITS

While tax savings should never be the basis for an investment, property gets some well-known advantages through allowable deductions.

Michael Doble, deputy chief investment officer for APN Funds Management, says the benefits are passed on in the form of tax-deferred income - the deductions relating to depreciation and building allowances from a property.

Because tax-deferred income is calculated as a percentage of income earnings, when the yield on a property investment rises, so does the tax-deferred component.

Doble says the great advantage is that investors are deferring their tax liability. "You are getting to use that money today which would have otherwise been paid as tax," he says.

The tax-deferred component is eventually paid as capital gains tax when an investor sells the securities.

CASE STUDY: How change has paid off

A DECISION to turn a property syndicate invested in the Waurn Ponds Shopping Centre near Geelong, Victoria, into an open-ended trust has paid off for at least one original investor.

The Meat Industry Employees Super Fund, which manages $550 million for its 35,000 members, has seen a minimum 10 per cent net annual return on its investment in the Australian Unity Investments-managed Retail Property Trust since its inception in 1999. The property value has risen from $39 million to $132 million. Assistant fund manager Chris Salamousas says the initial decision to invest in a property syndicate rather than a listed retail trust was because of the direct nature of the investment.

"Syndicates work well for us because we have a close relationship with the manager and we know exactly what is happening with the property," he says.

AUI's head of property, Martin Hession says property syndicates generally have fixed investment terms of about six years.

Once they reach the end of the term, there are a number of options, including: rolling the syndicate over for another term; turning the syndicates into an open-ended trust; and selling the assets and distributing the proceeds to investors.