



# A Guide to Property Investment Options



## Background

The UK property market is still in favour with both UK and International investors, with London being targeted in particular. Annual investment in UK property reached £42bn in the first quarter of 2014.

While investors and the City have been keen to seek out new sources of yield, and with the UK's relatively stable economy, specifically in London, property is a popular choice for a wide range of investors.

It's not only the International investors who are pouring their capital into the City. More than 75% of the purchases made in the first three months of the year in London, came from International buyers, according to Commercial Real Estates Agents, Cushman and Wakefield.

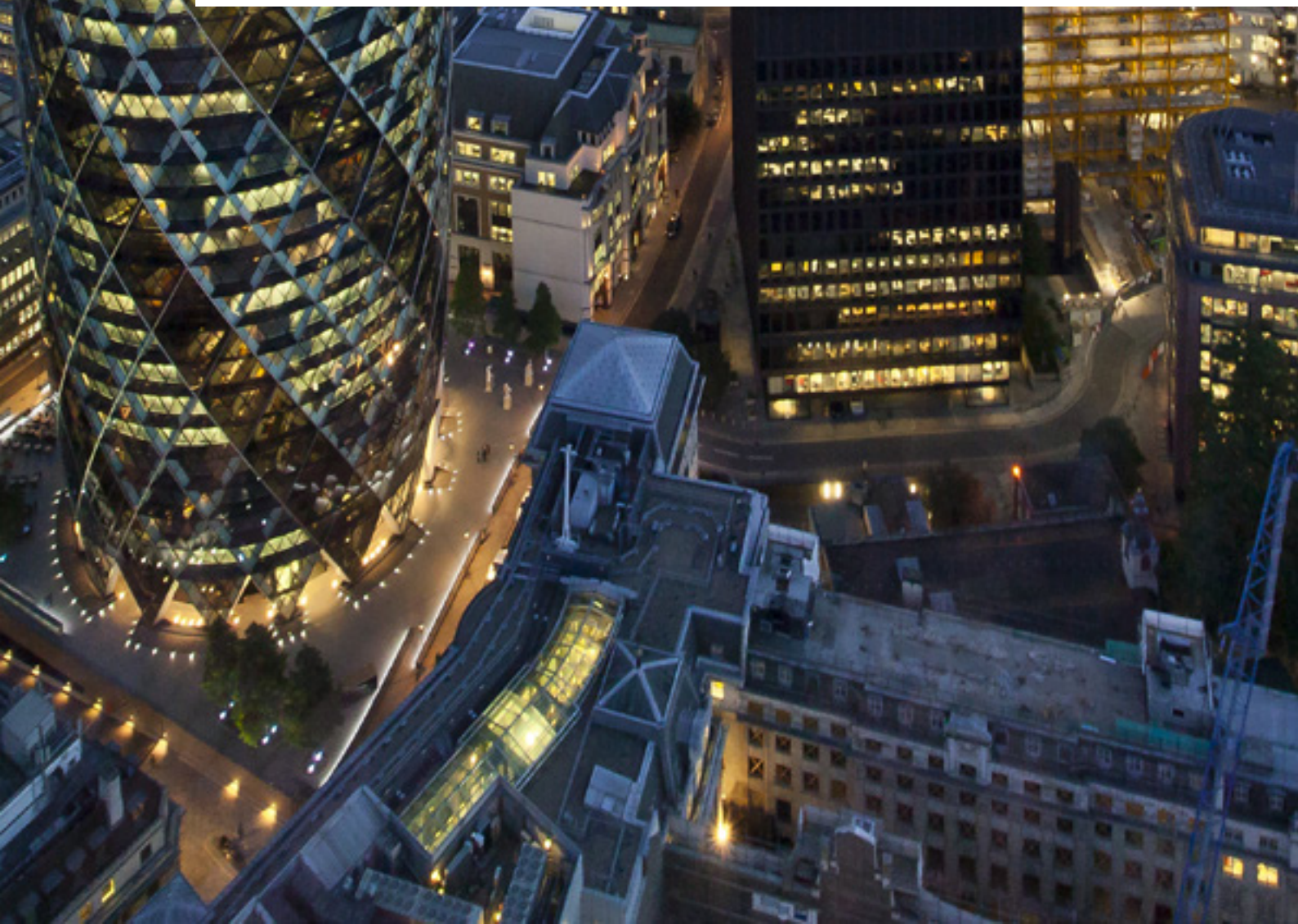
Private investors are looking to property-based investment funds to bring higher yields. For those with available cash currently earning lower rates of interest, property is an attractive investment compared with the current low interest rates that banks are offering savers in the UK. In addition, the lack of institutional finance available, is causing investors in the UK to look to funds to cash in on the current conditions of the property market.

With an array of financial products available, Simon Morris, Property Advisor to Investment Funds & Bonds, has launched this guide to help individual investors ask the right questions about property portfolios. If you're a first-time investor into property, this guide aims to arm you with the necessary information to ensure that your investment is low-risk, and guarantees returns.



## Property investment bonds

Fixed income property bonds are now available and offer healthy returns in the region of 6-10%. These are proving an increasingly popular option for discerning investors looking for low risk and high yield.





## How do property investment bonds work?

Bonds are a fixed income investment product that are issued by companies as a way of raising finance. The bond issuer pays the investor for the privilege of using their money in the form of interest payments known as 'the coupon'.

The interest payments are made at a determined rate and on a determined schedule. The bond will have a maturity date in which the loan is repaid to the investor. So, with bonds you'll know exactly how much you'll get back if you hold the bond until maturity.

Bonds are tradable on the market and a bond's price can change daily like any other equity. You can buy or sell bonds at any time, you don't need permission from the bond issuer to sell the bond.

Bonds can be affected by changes in interest rates, but this is off-set by the advantages of knowing your long-term return.

Offering a good, safe investment and typically providing a secure income and healthy capital return, property bonds are becoming the investment vehicle of choice in the current market.

With the property market widely predicted to show healthy returns in 2014 and beyond, a fixed income property bond is a way to take advantage of property price gains without having to physically own and maintain any property yourself.

### *Advantages of property bonds:*

- ***Fixed income***
- ***Healthy returns in the region of 6-10%***
- ***Return on the original investment on maturity***
- ***Tradable***
- ***An easy way of taking advantage of predicted property market rises***
- ***A conservative investment that has the potential to provide large gains***
- ***Less volatile than equities***
- ***Fund products offering some form of liquidity protection and capital guarantee are a good option***

Simon Morris, Property Advisor, has seen a rise in popularity of property investment bonds and believes that this is an "astute way to take advantage of the buoyant property market."

A low-angle photograph of several modern glass skyscrapers against a clear blue sky at dusk. The buildings are illuminated from within, with warm yellow lights visible through the windows. The perspective is looking up, making the buildings appear to converge towards the top of the frame. A dark grey horizontal bar is positioned across the middle of the image, containing the title text.

## Property investment funds

*Aside from bonds, property investment funds are also growing in popularity. But before you invest in a fund, ensure that you are aware of the following:*

- *The type of property that the fund is investing in, i.e. office, commercial.*
- *If the fund concentrates on commercial or retail properties – check out the existing tenancy arrangements – are there existing tenants? How long is the lease agreement?*
- *The locations of the property within the portfolio. London and Manchester are two of the UK's favoured locations at the moment. But be aware of the strategy of the properties purchased, along with research prices, trends and the economy, in the related areas.*
- *The level of risk you're signing up to. There are funds available now that guarantee the initial capital invested. Higher risk usually is balanced with higher yield, but be aware of the risk level of the fund.*
- *Check the management charges. Are they paid up front? How do they compare with other funds?*
- *Be aware of how long your money is tied up for. Can you release your investment quickly, or is it tied into a period of time?*

# Types of property funds

## Bricks and mortar funds

A number of physical properties are purchased by the fund, spreading the risk across the properties.

Returns are made from an increase in value of the properties, but also the rental income.

## Benefits of direct commercial property investment funds

Longer lease lengths (e.g. five years or more), result in a reduced risk of empty tenancies, along with upward-only rent reviews. This means that rental income increases at least by the rate of inflation each year.

The fund manager is responsible for sourcing tenants, investing in property in prime locations, and negotiating lease lengths.

## Risks

- If the initial capital is tied in, buying or selling property can take long periods of time, making it difficult to sell your holding in the fund quickly. If you're looking for quick returns – this type of fund may not be ideal for you.
- Property values may decrease. Watch out for clauses in the contracts that allow fund managers to lock down the fund with 'exceptional circumstances'.
- If a number of Investors are looking to reclaim their cash, under Financial Conduct Authority (FCA) rules, property funds can suspend trading for 28 days, while they try to raise enough cash by selling properties to meet the repayments of investors. This period may recur until the fund has enough capital to meet redemptions. Previously in unstable times, this period lasted as long as a year.
- It's prudent for an investor to look for fund products that have some form of liquidity protection and capital guarantee.

# Types of property funds

## Indirect commercial property funds

- Indirect commercial property funds invest in companies with large property portfolios. Associated shares are listed on the Stock Exchange, and traded on a daily basis, no different to any other share trading. Due to the daily trading, unlike with direct commercial property funds, there are no liquidity issues, so investors can move in and out of the fund with ease, and access their cash.
- Returns are reaped as they would be in any other investment in shares, through share price appreciation and dividend income, rather than directly through property price increases and rental income. But while you get the benefit of the liquidity of an equity-like product, you also get the volatility of investing on the stock market



## Types of property funds

### Real estate investment trusts

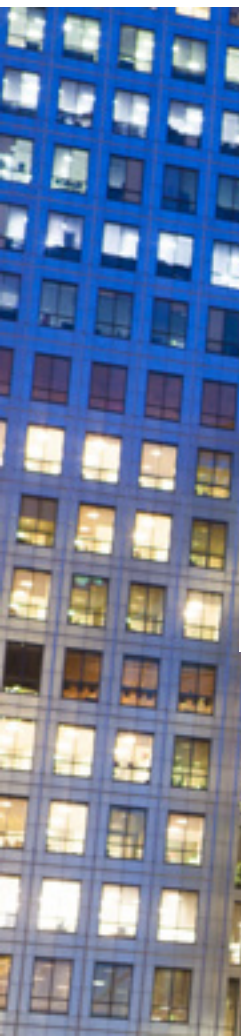
The great majority (over 80%) of these property companies are known as Real Estate Investment Trusts (REITs), and have greater tax benefits, than other listed property companies.

REIT companies don't pay corporation tax on their assets, on the condition that 90% of profits are paid to shareholders as dividends, which in turn, could mean higher payouts. REIT investors pay either 20% or 40% tax, because they're classed as property-letting income.

### Property investment trusts

Alternatively, you could invest in property investment trusts, which will pool your money to buy property and property company shares. The difference between these and REITs, is that they're considered to be like any other company, so tax on dividends is only 10% for basic-rate payers, and 32.5% for higher-rate payers.

Investment trusts can do things that unit trusts and open-ended investment companies (OEICs) can't. For example, many property investment trusts use 'gearing' - a process whereby the companies borrow money to boost the amount they can put into property, beyond what you have invested. While this can enhance gains in a rising market, it can magnify losses if returns fall.



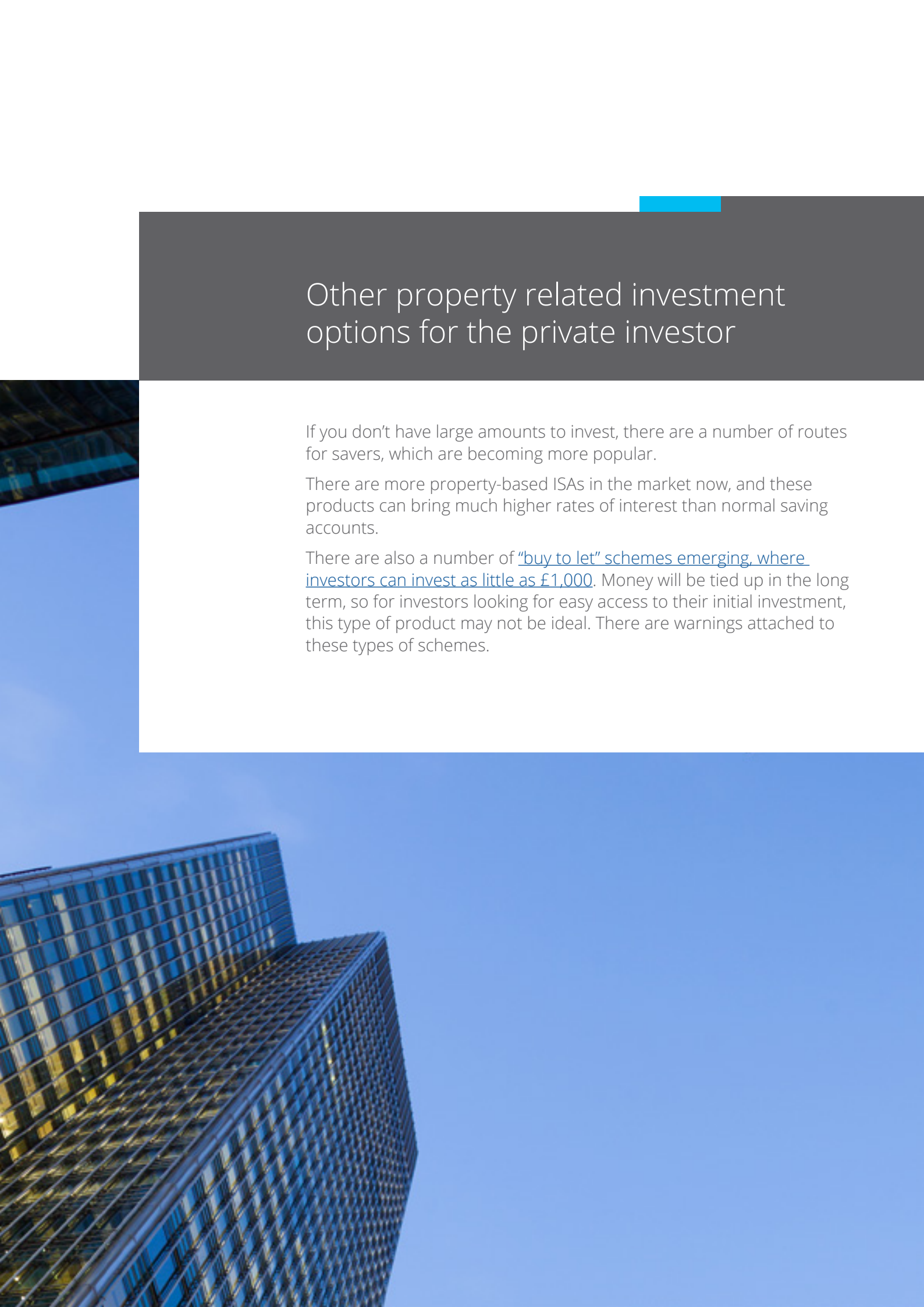
An aerial photograph of a city at sunset. The sky is a mix of orange, yellow, and blue. A river flows through the city, with a large bridge crossing it. The city lights are beginning to glow, and the water reflects the sky and the lights.

## Trends predicted for 2014

With so much focus on the UK property market, there is much discussion on what 2014 will bring.

[Deloitte](#) made predictions in a recent report summarised below:

- Vacancy will finally start to fall on the high street, increasing the value of real estate prices.
- With consumers buying more online, distribution is a major factor for all businesses with products to shift and deliver quickly. Next day deliveries are facilitating a need for a wider geographical spread of distribution hubs, so warehouses in areas close to a good road network, are likely to see demand rise.
- Disposal of public sector properties is likely, with property prices high, particularly in London.
- Technology, media and telecommunications companies accounted for 70% of pre-let leasing deals in 2013, and this trend is set to continue. Therefore, cities that hold a high proportion of this type of company could be worth investing in.
- Taiwanese insurance companies have been investing since mid-2013 into the London property market, and this is set to continue further driving up commercial property prices. This follows China and the Middle East.



## Other property related investment options for the private investor

If you don't have large amounts to invest, there are a number of routes for savers, which are becoming more popular.

There are more property-based ISAs in the market now, and these products can bring much higher rates of interest than normal saving accounts.

There are also a number of ["buy to let" schemes emerging, where investors can invest as little as £1,000.](#) Money will be tied up in the long term, so for investors looking for easy access to their initial investment, this type of product may not be ideal. There are warnings attached to these types of schemes.

## What the investment commentators are saying

Aviva, the insurance giant which pours billions of its customers' money into commercial property, issued a "UK Real Estate" outlook in which it says returns will be "very strong" and "in double digits" for each of 2014 and 2015.

Wealth manager Equilibrium Asset Management expects UK commercial property (embracing offices, shops, factories and warehouses) to return more than 12% this year. [Quoted in The Telegraph, Equilibrium's managing partner Colin Lawson](#) said "It's a bold prediction, but we believe commercial property will deliver the best risk adjusted returns during 2014. Returns could be better than the FSTE for a fraction of the risk. Property is strongly linked to economic performance, so the recent recovery in the UK is a strong 'buy' signal in my view."

Deloitte's prediction for UK Real Estate was positive, [in their published report](#) they said "The stage is set for a period of strong performance from UK commercial property. With the market picking up significant momentum towards the end of 2013, as a widening pool of investors become increasingly willing to move further up the risk curve, we expect to see capital values rise sharply over the next six months."

Overall commentators are broadly positive in their outlook for property investments, with retail vacancy rates also widely predicated to fall in 2014.

## Regulation of funds

Ensure any investment you sign up to is regulated and authorised by the FCA.

If the funds management company goes bankrupt, the investment belongs to you, and you are protected as the investment remains in place. But always check contracts and terms and conditions for each investment.

A trustee or depositary is appointed to oversee and safeguard the fund's assets (your investment). Their objective is to oversee the management of the fund, and ensure that the fund is run with the best interests of its investors in mind. Regulated funds have rules in terms of what a manager can and can't do – so be aware of the following:

- There are limits in the type of investments that can be made.
- There are rules in terms of the information that the fund manager gives to you.
- Restrictions on the way funds can be promoted and sold.
- Regulations governing the charges and costs you pay.



## Summary

Property has been stable in recent years, in terms of longer term investments. The current UK economic climate does show signs of people hoping to make a quick investment on larger amounts of capital. Investment into property-based investment funds for investors with available cash can offer attractive yield at relatively low risk.

If you are serious about investment in property, use the following checklist:-

- Ensure that the fund is regulated.
- Ask questions in terms of:
  - Management fees
  - Types of property that the portfolio includes or may include
  - Locations of the property
  - Length of existing tenancy arrangements
- Some investment products guarantee the initial capital invested – check the details for this.
- Keep an active interest in the health, management and performance of the fund.
- Watch out for changes in the management company.
- Keep an active eye out on property and financial news.



## About the author

Simon Morris is an independent property consultant with over 15 years' experience in property investment. Simon actively works with a number of funds and high net worth individuals, advising on property purchases, to ensure investments made into property, are measured in terms of risk, and bring solid return on the initial investment.



## Useful links

[www.telegraph.co.uk](http://www.telegraph.co.uk)

[www.deloitterealestate.co.uk](http://www.deloitterealestate.co.uk)

[www.telegraph.co.uk](http://www.telegraph.co.uk)

[www.fca.org.uk](http://www.fca.org.uk)



## Things to consider

Before making any investments you should take advice from an authorised person if you not qualified to make investment decisions.

You should ensure all investment products are regulated and authorised by the FCA. It's always wise to look for fund products that have some form of liquidity protection and capital guarantee.

This guide in no way provides any sort of direct or indirect financial advice, you should always seek advice on any sort of investment decision from an authorised independent professional.