Investment
Property Forum

Understanding UK Commercial Property Investments

A Guide for Financial Advisers

2017 Edition

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Introduction

This Guide is intended to provide an objective overview of the attributes of UK commercial property as a mainstream asset class and an outline of the commonly-available product structures through which retail investors are able to access the market, should direct property purchase not be the appropriate route.

The focus of this Guide is on commercial property rather than residential as, at present, the latter constitutes only a small part of the portfolios within both funds and property companies. It is anticipated that 'institutional' investment in residential (including Build to Rent), together with that in other currently non-core, 'alternative' property sectors will become more significant in the next few years and therefore subsequent editions of the Guide are likely to be expanded to reflect these changes.

The content of this Guide relates to the UK commercial property market only. The performance of investment property in other jurisdictions may differ considerably from that in the UK for several reasons, not least differences in the relative size and respective liquidity of the market, the number and type of the participants and the respective valuation, legal and taxation frameworks.

The IPF hopes that the information within this Guide is helpful to those advising retail and/or high net worth investors. We welcome suggestions as to what should be included in (or deleted from!) subsequent editions – please send these to Sue Forster, IPF Chief Executive – email: sforster@ipf.org.uk.

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Overview of UK commercial property as an asset class

DIRECT PROPERTY INVESTMENT

Pros

- Physical asset
- Some inflation protection
- Capital growth potential
- Relative to other asset classes
  - Stable income return
  - Provides diversification
  - Lower volatility

Cons

- Heterogeneous asset
- Large lot size of direct property/ portfolio purchases
- No central trading exchange
- No guarantee that the valuation and sale price will be the same
- High transaction and management costs

CHOICE OF INDIRECT OVER DIRECT INVESTMENT ROUTE

Pros

- Can invest smaller amounts
- Diversification benefits
- Opportunity to specialise by sector/location
- Benefit from property expertise
- No property management responsibilities
- Greater liquidity (depending on the vehicle used)
- Governance oversight

Cons

- Lack of control over investment decisions
- Vehicle management costs – impact on returns
- Depending on vehicle, returns, at least in the short term, may not mirror those of direct property
- Possible increased volatility in returns from gearing
- Possible lock-ins/restrictions on withdrawal (some unlisted vehicles)
- Relatively low/no secondary market liquidity (some unlisted vehicles)

EVALUATION OF INDIRECT INVESTMENT ROUTES

Investment considerations

- Investment strategy
  - Core, value add or opportunistic
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- Investment vehicle
  - Listed or unlisted
  - Open-ended or closed-ended fund
- Transparency
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- Nature of governance
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- Target returns
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  - At a given time
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- Duration of investment
- Risk profile
- Amount to invest
- Level of control required
- Level of individual investor sophistication
- UK taxpayer/non-taxpayer

1: Overview of commercial property as an asset class

A summary of the investment characteristics of direct commercial property compared with UK equities and government bonds is set out in Figure 1.

Figure 1: **Investment characteristics of the main investment types**

	Fixed-interest government bonds	Index-linked government bonds	Equities	Property
Nominal income	Fixed	Variable	Variable	Fixed, but may vary at rent review
Real income	Variable	Fixed	Variable	Variable
Nominal capital value	Fixed if held to redemption, variable if sold before	Variable	Variable	Variable
Real capital value	Variable	Fixed if held to redemption	Variable	Variable
Nominal expected return	Fixed if held to redemption, variable if sold before	Variable	Variable	Variable
Real expected return	Variable	Fixed if held to redemption, variable if sold before	Variable	Variable
Income security	Secure (most governments)	Secure (most governments)	Depends on issuer	Depends on tenant
Liquidity	Liquid	Liquid	Liquid	Illiquid
Links to economy	Real return depends on inflation	Nominal return depends on inflation	Linked to economy and inflation	Linked to economy and inflation

Source: Martin Hoesli and Bryan D MacGregor, Property investment: principles and practice of portfolio management, 2000, London and New York: Routledge.

1. Size and structure of the property investment market

A. SIZE

The UK property market is estimated to be worth circa £6,800bn[1]. Commercial property represents around 13% (£883bn), with around £486bn (55%) of this being 'investable'. The residential market accounts for some £5,915bn of the total, 63% of which is owner-occupied. While the value of UK property overall is far greater than the London Stock Exchange and gilt market combined, commercial property on its own constitutes a smaller market than the other two asset classes – see Figure 2.

B. SECTORS

The UK property investment market has been dominated traditionally by three main sectors: Office (currently £208bn); Retail (£171bn); and Industrial/distribution (£60bn). Over the last few years, institutional/larger scale investors have been actively acquiring investment assets in alternative sectors (totalling £47bn at end-2016). These include leisure & hospitality (hotels, restaurants etc.), healthcare, nursing homes, student housing and private-rented housing.

1 Data in this paragraph is taken from The Size and Structure of the UK Property Market End-2016 Update, Investment Property Forum, 2017

The main sectors have a mix of performance drivers that are both common (such as economic growth) and also sector dependent. Key performance drivers that are common across sectors include:

- **Supply side:** new development, refurbishment, planning restrictions.
- **Demand side:** location, economic growth & employment, population trends, infrastructure & accessibility, building aesthetics & design, obsolescence.

Sector performance drivers

Offices
- Business demand
- Workforce availability
- New supply
- Functional obsolescence

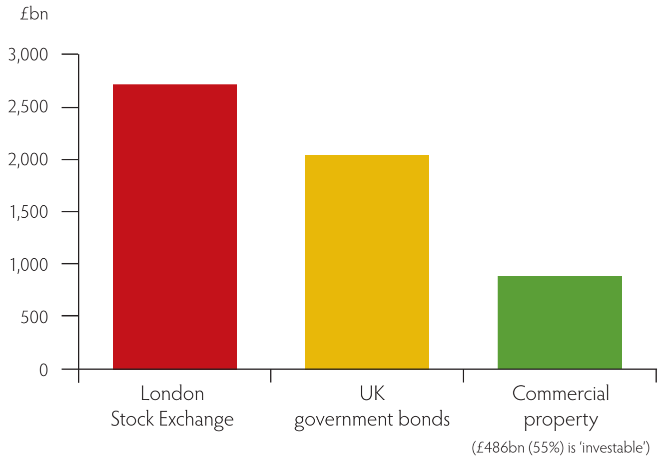
Retail
- Catchment
- Competition
- Retail mix
- Impact of ecommerce

Industrial/distribution
- Distribution network
- Proximity to customers
- Access to skilled labour
- Impact of ecommerce

Alternatives
- Asset and tenant dependant

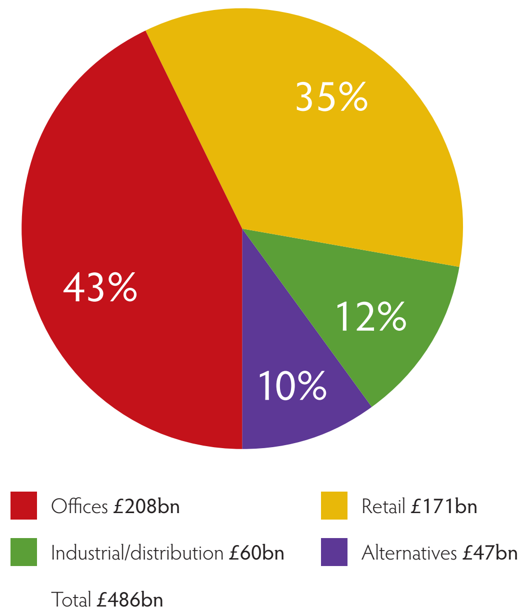
Within the alternative sectors the focus is principally on 'operating assets' where the income is not fixed in the same way as it would be under a conventional commercial property lease. Therefore, they can require different skills/knowledge and management experience/capability to deliver returns in line with the mainstream sectors. However, their real advantage (if properly and knowledgeably managed) are as diversifiers in a mixed-sector portfolio, as their underlying performance does not tend to be highly correlated with other sectors/asset classes. Some also have relatively high levels of correlation to inflation (e.g. private-rented housing), which is attractive to those investors seeking to match their liabilities (e.g. pension schemes).

Figure 2: **Market value of UK equities, bonds and commercial property at end-2016**



Sources: PIA Property Data Report 2017 and The Size and Structure of the UK Property Market End-2016 Update, Investment Property Forum, 2017

Figure 3: **UK commercial property investment universe at end-2016**



Source: The Size and Structure of the UK Property Market End-2016 Update, Investment Property Forum, 2017

'Alternative' sectors now account for 10% of 'investable' commercial property

Growing interest in the residential rented sector

One alternative sector that is currently receiving a lot of attention from both UK and overseas investors is the private-rented residential sector (PRS). This is in response to a general lack of new housing in the UK (particularly in the London and the South East and large urban centres in the rest of the UK), and a demographic lifestyle change, making renting a likely longer-term activity for occupiers.

Most investors are focused on delivering or acquiring new, purpose-built, large-scale rental schemes in central urban locations. These assets are known as build-to-rent (BtR), forming a sub-set of the larger PRS. It is expected that this sector will grow to a similar scale as the institutional/larger-scale investor holdings in more established residential rental markets such as the US and Germany.

2. Main participants in the investment market

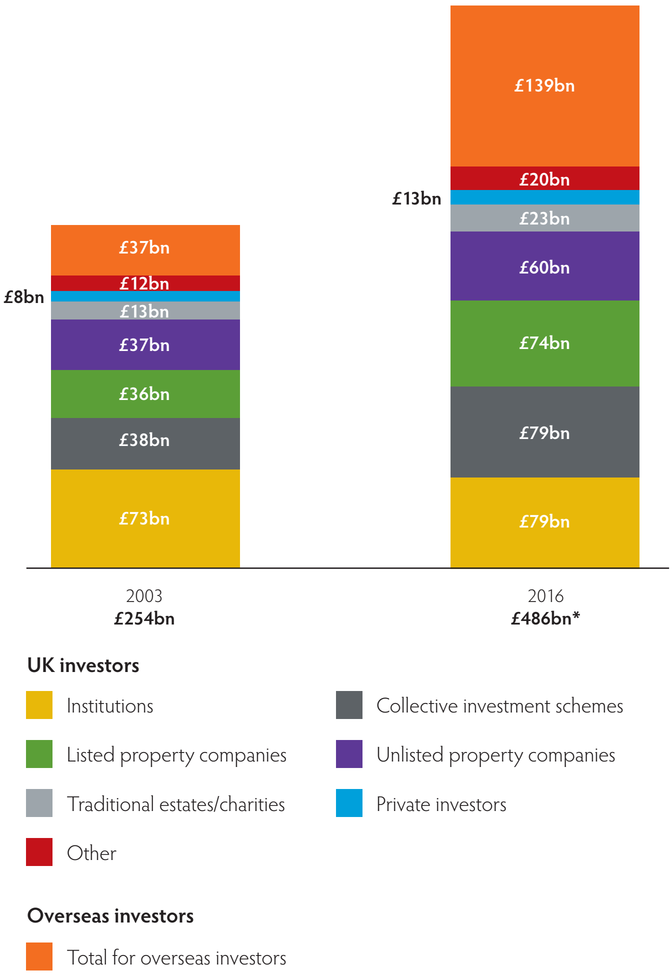
The participants in the UK property investment market have changed significantly over the past 40 years. The traditional owners of property – the Crown, central and local governments, wealthy individuals and the Church – have been largely replaced by institutional investors, private equity funds, sovereign wealth funds, and other international investors.

There has been an increase in the number of overseas investors, with a particular focus on London, from a market traditionally dominated by domestic investors – see Figure 4.

Different investors around the world have vastly different investment horizons and liquidity requirements, and will use property either as a diversifier in a larger investment portfolio or for a specific return objective. Funds aimed at retail investors and institutional defined contribution pension schemes tend to provide daily liquidity and/or tax transparent structures but institutional clients with a long-term view may be comfortable with monthly, quarterly, annual or only secondary market liquidity.

Overseas investors often favour joint venture opportunities, where large investments are run by a specific investment house to reach their own tailored return targets, or they could be comfortable pooling with other like-minded investors in a 7-10 year fund that offers no liquidity until the end of the fund's life. Within different types of products, property funds can range from those that focus on delivering income only, rather than a balanced portfolio that has higher exposure to market movements, or they have sector specific exposure (such as offices or industrial), or a more opportunistic type of portfolio that looks at refurbishments and onward sales.

Figure 4: **Breakdown by type of owner – comparison of 2003 and 2016**



Sources: The Size and Structure of the UK Property Market (2005) and The Size and Structure of the UK Property Market End-2016 Update (2017), both published by Investment Property Forum

** Total adds up to £487bn due to rounding.*

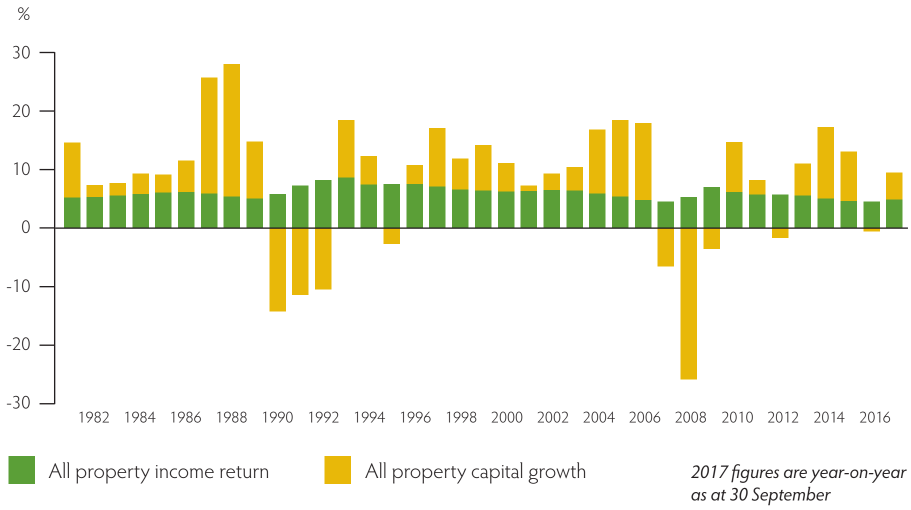
For a largely illiquid asset class such as property, holding a longer-term view and investing in a fund with limited liquidity can result in higher returns, as these types of funds will hold little to no cash (which can often drag overall performance of a fund) in order to meet potential redemptions.

3. Property as an investment

A. RETURNS

Income (rent) from a property investment is produced because of a tenant's commitments under the terms of a lease. Rent is a first charge on the assets of a company and therefore takes priority over many other forms of debt. The underlying relative consistency of property rental returns, compared with the far more cyclical capital returns (underlying the importance of timing when deciding to buy or sell property), is shown in Figure 5.

Figure 5: **Property: income and capital returns**



Source: MSCI Real Estate

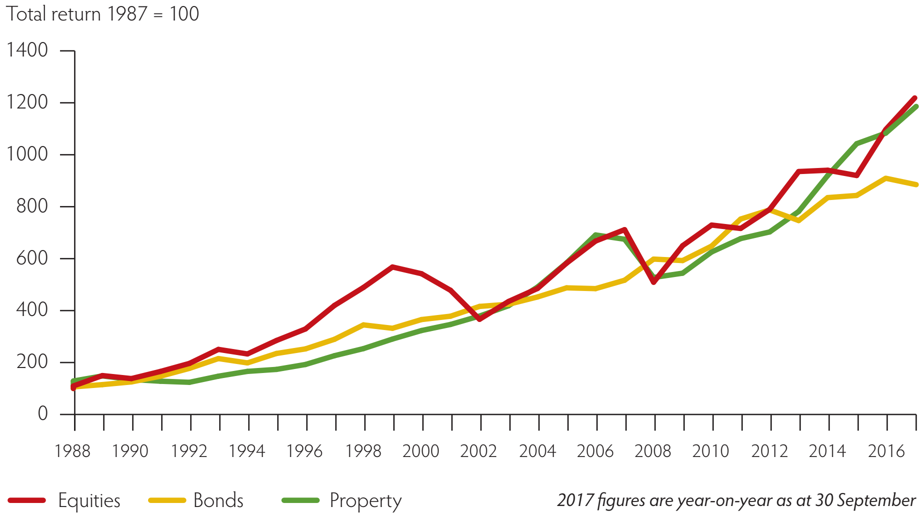
Commercial lease contracts are also relatively long term in the UK, an average of seven years[2], and nearly all make provision for a review of the rent if the lease term is more than five years. Rents are usually reviewed to the level of the prevailing market at that time, supported by a provision that the change is based on upward only reviews.

B. COMPARISION WITH OTHER ASSET CLASSES

In comparison with income from equities, property rent is generally much more predictable and certain. While conventional bonds (except for those that are index-linked) also provide an assured return, they do not offer the prospect of income growth.

The investment returns from property are usually compared with those from equities and bonds – see Figure 6 and 7.

Figure 6: **Performance of commercial property compared with equities and bonds**



Sources: MSCI Real Estate, MSCI, JP Morgan

2 UK Lease Events Review, published by MSCI, in association with Strutt & Parker and British Property Federation, November 2016.

The periods of property outperformance compared to the other asset classes (as shown on Figure 7) can be a significant benefit to investors prepared to manage their portfolio actively.

Figure 8 shows a comparison of the total returns from property, equities and bonds over the short, medium and long term. The cyclical nature of markets is underlined by this graph – commercial property outperformed the other two asset classes over three and five years but was the worst performing of the three over the 10-year period.

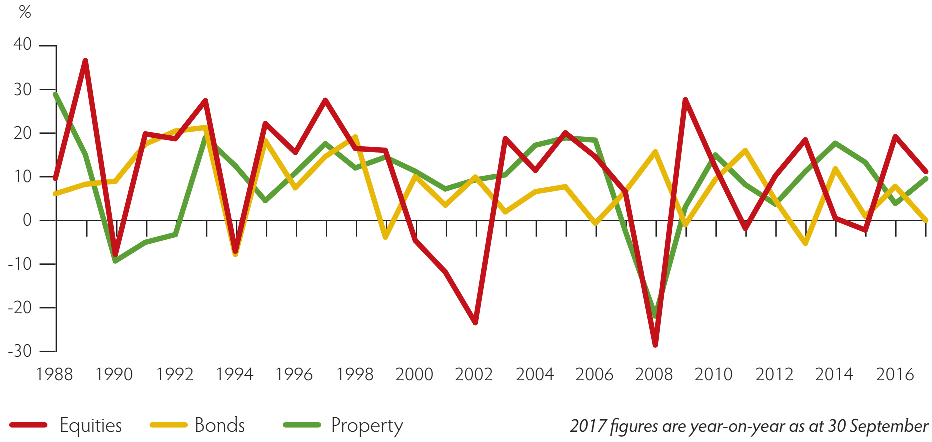
In terms of risk profile, property is usually regarded as being between bonds (lower risk) and equities (higher risk) but with the benefit of potential income growth from rental uplifts. However, liquidity risk should not be understated.

C. INFLATION

IPF research looked at property values and inflation over the long term and found that property is not a hedge against inflation in most scenarios, where a 'hedge' is defined strictly as moving at the same time as inflation or reacting to it[3].

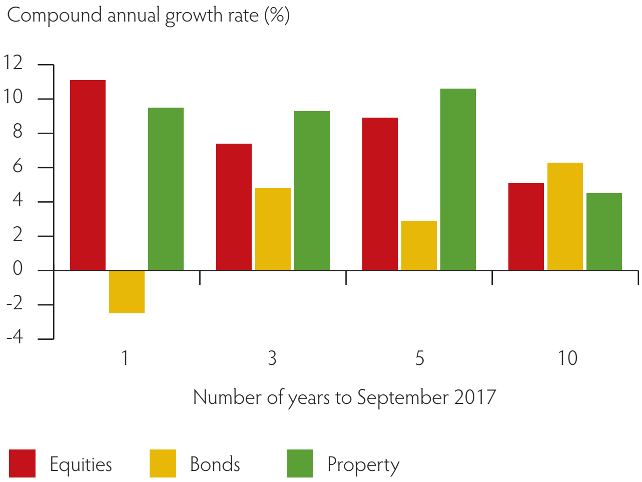
However, property does deliver long-run real returns, as shown in Figure 9.

Figure 7: **Total returns from equities, bonds and commercial property**



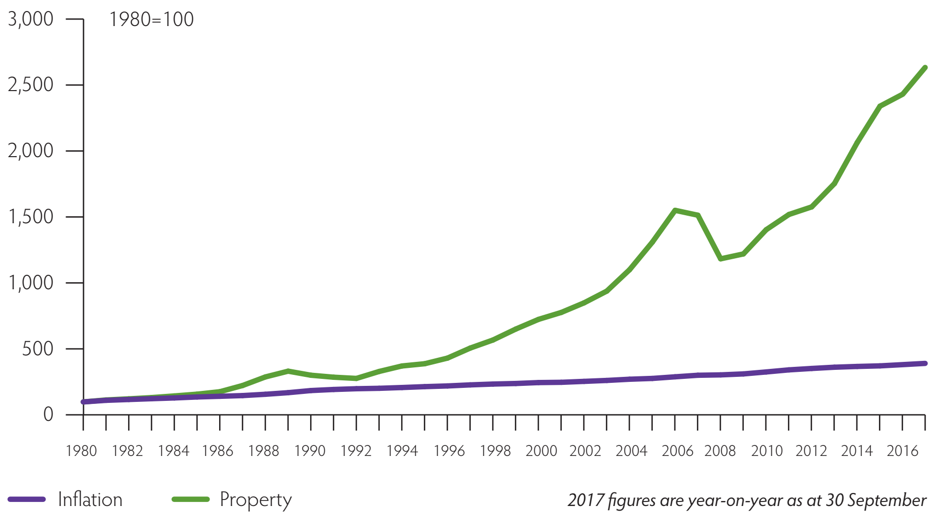
Sources: MSCI Real Estate, MSCI, JP Morgan

Figure 8: **Annual total returns from equities, bonds and commercial property over different periods as at 30 September 2017**



Sources: MSCI Real Estate, MSCI, JP Morgan

Figure 9: **Property total returns vs. inflation**



Sources: MSCI Real Estate, MSCI, JP Morgan

3 'Property and Inflation', published by the IPF Research Programme in April 2011.

4. Drivers of property investment returns

Investment returns are created from both changes in asset value (capital return) and the cash flow generated from the underlying asset (income return).

INCOME

The main source of return from commercial property investment is normally the rent paid by the tenants – over the long term, this is likely to make up most of the total returns that may be achieved.

Rental payments are made on a regular basis as set out in the lease agreement. Leases on commercial property can be for 5 or 10 years – sometimes even longer – which means a commercial property investment offers the scope for a predictable, regular income that lasts the life of the lease. What's more, rental rates are normally reviewed every five years and, in many cases, the rent can only be revised upwards.

With the growing interest from funds/institutional investors in the residential sector, it is important to note the differences between the leases for commercial and residential assets. The latter tend to be let on shorter leases, generally one to three years, and offer the tenant earlier (sometimes after only three to six months) termination. The maintenance and management costs to the landlord for residential assets are generally higher than those for commercial (where the business tenant is responsible for insuring and repairing the premises), leading to an increased erosion of gross income. However, residential income can be more predictable over the longer term, as the length and size of the tenant voids are likely to be smaller than for commercial property outside core locations.

CAPITAL

The value of commercial investment property is largely based on the reliability of the regular rental income. However, the capital value can change quite dramatically depending on the supply and demand for investment stock at any given time. These shifts in capital growth over time are illustrated in Figure 5 (see page 4).

The key drivers of property performance are outlined in this section.

A: DEMAND AND SUPPLY

The rent at which a property will let or the price at which a property will sell is determined by the market. Strong demand from prospective tenants for particular buildings will lead to an increase in the rental value of that space, particularly if there is a physical restriction on supply, e.g. a shop in Bond Street in London's West End.

The strong tenant demand also means that landlords do not have to offer tenants so much in the way of incentives to take the lease. This is illustrated by looking at rent-free periods at the start of the lease, a common incentive. When market rents are rising rapidly, the length of the rent-free periods being offered falls and the reverse is true when rental values are static or falling. In 2017, the unweighted average rent-free period for all offices was 9.1 months, very much in line with the previous year and well below the high of 11.4 months recorded in 2010[4].

Capital values increase where there is greater investor demand (as well as greater tenant demand). For example, the capital value of trophy assets in the centre of London have grown more rapidly in value than property in the rest of the UK because of the high level of international investor demand. It is important to note that movements in capital and rental values are not perfectly positively correlated, and it is possible (and often the case) for the investment value of an asset to rise faster or slower than its rental/occupational value.

4 UK Lease Events Review, published by MSCI, in association with BNP Paribas Real Estate, November 2017

B. RENT REVIEWS

UK commercial property leases generally provide for rents to be reviewed every five years and set to the market level where this is above or equal to the rent being paid at the time of the review. If the market rent is below the current rent, the rent would remain unchanged for the next five years. Although a 'five-year, upward-only rent review' is the most common review type in the UK, there are other mainstream provisions:

- **Fixed uplift rents:** these are rents that are uplifted after a pre-established period (e.g. every three or five years) by a set value or percentage as stated in the original terms of the lease;
- **Index-linked rents:** these are rents that are linked to an index such as the Retail Price Index (RPI). They have been increasingly adopted by the UK investment market as they provide inflation hedging (see INVESTMENT VEHICLE STRATEGY on page 13); and
- **Turnover-related rents:** these are rents that are set as a percentage of the tenant's business activity turnover from occupying the space. Whilst such provisions often include a base rent which can be relatively low, turnover-related rents are less certain and more volatile than five-year, upward only leases and are more difficult to value. These leases are most common in the retail sector.

Additionally, there has been an increase in hybrid leases, such as retail fixed-base rents with turnover-related top-ups.

C. LEASE LENGTH

Commercial property leases in the UK typically range between 5 and 15 years in length, with the market average currently being around seven years[5], compared with 23 years in 1990.

Average lease lengths also differ across sectors, and sub-sectors, e.g. retail warehouse tenants generally want longer leases than those occupying standard unit shops. Location and the size of the space occupied also have a bearing on the length of the lease. With regard to the former, for example, tenants occupying offices in central London may want greater flexibility and therefore shorter leases than office tenants in other UK towns/cities. As to size of space occupied; tenants with more floorspace are more likely to want a longer lease because of the level of upheaval associated with relocation and the higher capital expenditure on fit out.

Some leases include a 'break clause' that gives the landlord and/or tenant the option to terminate the lease prior to its expiry date. This can impact the value of a property because the income stream is no longer certain for the full term of the lease.

D. COVENANT STRENGTH

The share prices of two manufacturing companies producing similar products may differ because of the market rating of each company. Likewise, the investment value of two identical buildings occupied by tenants paying exactly the same rent will differ if there is a perceived difference in 'covenant strength' between the two tenants.

E. ASSET MANAGEMENT

In its simplest form, asset management is the collection of rent, the arrangement and recovery of insurance (if multi-occupied), the administration of contractual lease terms (e.g. rent reviews, lease renewals, repairing obligations), and the provision of services/maintenance to common parts (and the recovery of such costs, as may be applicable).

However, it may be possible to add value over and above that reflected in market pricing through active asset management. Investors seek to do this by measures such as 'right-sizing' tenants (providing them with the optimum sized unit), undertaking refurbishments and redevelopment, extending leases, or accessing rental reversions (i.e. where the rents received for space are less than the rental value of that space).

5 UK Lease Events Review, published by MSCI, in association with BNP Paribas Real Estate, November 2017

As with all lease terms, market conditions greatly influence the final terms agreed, for example tenants are often able to secure shorter leases in periods of over-supply and may have to take longer leases at times of limited supply.

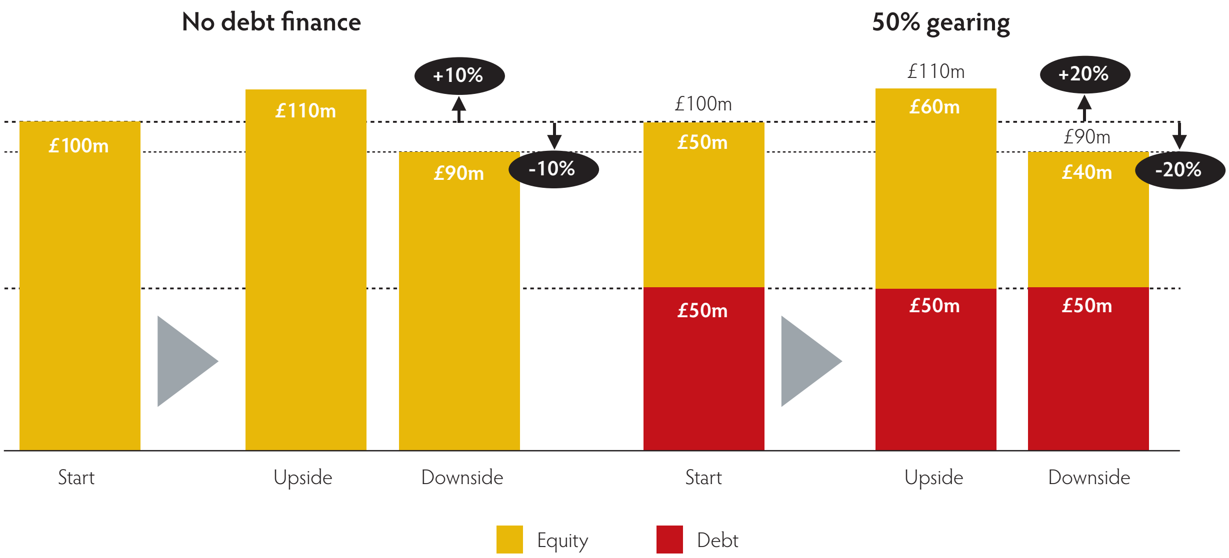
F. USE OF DEBT FINANCE

Gearing through the use of debt finance can have a dramatic impact on the investment performance of property. It can be used to increase the return on equity during an upward or stable market.

Conversely, gearing (or leverage) can exacerbate negative returns in a falling market. There is an increase in risk when using debt finance to increase returns, as markets tend to move up gradually over long periods and suddenly and strongly down during crashes.

The impact of using debt finance on returns in different market conditions is illustrated in Figure 10, which assumes a 10% increase and fall in capital value respectively on a notional investment of £100m. In the first instance, there is no debt finance employed and in the second the investment is geared by 50%. For simplification, there are no interest or amortisation assumptions on the debt.

Figure 10: **The impact of debt finance on property investment**



5. Unique features of property as an asset class

The unique features of property outlined below mean that all but the very large investors are likely to at least consider investing through some form of vehicle, rather than holding a portfolio of properties directly.

A. TANGIBLE ASSET THAT REQUIRES MANAGEMENT

Property is a tangible asset, usually comprising two elements: land and buildings. While buildings can become obsolete or be destroyed, land remains an asset that generally retains some value because in the UK it is in limited supply and is subject to the restrictions of the land-use planning system. Property may also offer the opportunity to increase its value, and hence investment returns, through 'active' management. This can entail such actions as refurbishment or redevelopment, the renegotiation of leases or new lettings etc.

The downside of owning a tangible asset like property is management and costs of ownership. The amount will depend on the terms of the lease. Although it is common for leases of commercial properties in the UK to make the tenant take responsibility for all costs of repair, maintenance and insurance of the building, the landlord must still collect rent and ensure the property is adequately managed. Effective management is essential to maintain income flow and to ensure that a building remains attractive to occupiers. It should be noted that the costs of managing multi-let assets are often considerably more than for single let assets, and not all costs may be recoverable from tenants (particularly if the property is not fully let).

By contrast, share or bond ownership generally requires no active input from the investor, except when a decision is required to buy or sell.

B. HETEROGENEITY & VALUATION-BASED

The heterogeneous nature of property as an investment is one of its most significant features and is both an advantage and a drawback. On the plus side, it means that an almost infinite range of opportunities exists, each providing distinctive investment characteristics. This offers the prospect for diversification, even within a portfolio of a relatively small number of properties.

However, heterogeneity can make asset pricing difficult, especially in market conditions when there are fewer transactions involving comparable investment properties. Also, unlike other financial assets, direct property does not trade currently on an exchange with openly quoted prices. While this could change with innovations such as the proposed International Property Securities Exchange (IPSX), at present, valuers are required to estimate the value of an asset using financial information about the property combined with market data.

The Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Standards (known as 'The Red Book') are the national valuation practice standards in the UK. They are used by RICS members (chartered surveyors), who value most of the investment property in the UK.

Properties are valued principally for transaction purposes (buy/sell decisions), financing for borrowing or capital raising purposes, performance benchmarking, unit pricing for funds (see Section 2) and for the annual accounts.

The major index provider used for benchmarking in the UK commercial property investment market is MSCI (formerly known as IPD). As at end-2016, the total index universe consisted of 22,985 properties, with a total value of £183.7bn (almost 40% of investable commercial property by value). MSCI produces indices on a monthly, quarterly and annual basis, although the first two are based on smaller samples than the total index universe because not all properties in the index are valued with the same frequency.

C. LIQUIDITY

The process of selling and buying property takes a lot longer than trading equities or government bonds. This is because of the unique nature of every property, its complexity (both physically and from a legal perspective), the large unit size and the nature of the market in which transactions occur. Investing in direct property therefore involves more liquidity/transaction risk than financial assets traded through central exchanges.

Liquidity is also a consideration for investors in a fund holding direct property, although most funds accessible to retail investors offer daily dealing. Under normal market conditions, redemptions are generally serviced by the fund holding a percentage of the assets in cash and/or other more liquid forms of property (e.g. REITS) than direct property. However, as discussed in Section 2, there are certain times when this may not be sufficient to allow investors to redeem their money within the timescale they expect – see the reference to UNLISTED FUNDS IN EXCEPTIONAL MARKET CONDITIONS on page 15.

D. TRANSACTION COSTS

The cost of buying and selling commercial property is significantly higher than for a comparable volume of equities and gilts. This is due to much higher levels of stamp duty (stamp duty land tax (SDLT)[6]), together with

6 Stamp duty land tax (SDLT) applies to property located in England, Wales and Northern Ireland. Scottish property is subject to a broadly equivalent land and buildings transaction tax (LBTT), and from April 2018 property in Wales will be subject to a land transaction tax (LTT), rather than SDLT.

the costs of lawyers, chartered surveyors, environmental surveys and the Land Registry and other fees that can add an additional 1.5% to 2% to direct property transaction costs.

In practice, the high transaction costs associated with buying and selling property mean that property should be viewed as a long-term investment, with little or no opportunities to make short-term gains, except in a rising market where the time to transact may be much shorter than the norm.

Tax on commercial property transactions in England, Wales & N. Ireland[7]

Stamp duty land tax (SDLT)[8]

Purchase price	Rate for each 'slice'
Up to £150,000	0.0%
£150,001 – £250,000	2.0%
Over £250,000	5.0%

Comparative stamp duty costs

Equities 0.5%*

Bonds 0.5%*

Commercial property 5.0%**

** Stamp duty*

*** Stamp duty land tax (SDLT) in England, Wales & N. Ireland[7] – rate applicable on transaction price over £250,000 for non-residential property property.*

E. RISKS ASSOCIATED WITH DIRECT PROPERTY INVESTMENT

Risks associated with direct commercial property investment can be categorised as being at asset level or market level.

The principal risks are summarised in Figure 11.

Figure 11: **Principal risks associated with direct property investment**

Asset	Market
Stock specific – where there are a limited number of assets in a portfolio, investors may be unable to achieve much diversification.	**Economic outlook** – property performance closely correlated to level of GDP growth.
Liquidity – relatively illiquid in comparison to equities or bonds.	**Sector & geographic concentration** – property may perform better or worse than economy as a whole (see page 2 for outline of sector specific performance drivers).
Valuation – property values are determined by chartered surveyors who adhere to RICS professional standards but these values do not represent guaranteed transaction prices.	**Investor confidence** – not a constant and shifts in sentiment can have a positive or negative impact on values.
Tenant – ability to pay the rent (credit risk) and length of lease and hence potential for void periods.	**Political risk** – particularly in relation to residential property, e.g. potential rent controls.
Environmental – property itself may not comply with current standards so requires expenditure to remove materials or upgrade building fabric. Also locational issues, e.g. risk of flooding.	**Availability of debt and equity finance** – level available can vary considerably through the economic cycle **Interest rate changes** – affect cost of property borrowing + pricing of bonds and equities relative to property.
Litigation – related to acquisition, ownership, occupation/management and disposal of property.	**Changes in regulation/taxation** – can impact value and property's relative attraction as an asset class, e.g. increase in stamp duty land tax rates or the 22 November 2017 UK Budget proposed changes to tax on capital gains for non-residents.

7 From April 2018, property in Wales will be subject to a land transaction tax (LTT), rather than SDLT.

8 These SDLT rates apply to non-residential property. Percentage charged on each 'slice', as indicated. SDLT on residential transfers is subject to a different method of calculation and tax rates.

2: Routes to indirect investment in property

Investors can buy property investments directly and hold them outside of any collective/diversified structure. That is the 'purest' way of accessing property returns, but as outlined in Section 1, bears significant specific risks for investors (depending on how much capital they have to allocate and, therefore, what level of asset diversification they can create), as well as the cost of transacting and holding these assets.

If direct investment is not appropriate for whatever reason, investors looking at structures through which to invest (e.g. a collective fund or a listed property company) need to be aware of the factors that impact their returns at a unit/share level. Figure 12 summarises the returns profile from different indirect property vehicles.

Figure 12: **Returns profile from different indirect property investment vehicles***

	Pure property?	Available to retail investors?	Pricing	Comments
REITs (Real estate investment trusts)	Yes	Yes	Market	Equity market sentiment and debt influence price[9]. Performance often more influenced by capital returns.
APUTs (Authorised property unit trusts)	Yes	Yes	Valuation (NAV plus Bid/Offer)	No debt, but cash drag and valuations drive price. Performance is a mixture of income and capital returns.
PAIFs (Property authorised investment funds)	Yes	Yes	Valuation (NAV plus Bid/Offer)	No debt, but cash drag and valuations drive price. Performance is a mixture of income and capital returns.
Offshore closed-ended (often domiciled in the Channel Islands)	Yes	Not always	NAV-based or secondary market	Often have debt, but no cash drag. Performance is a mixture of income and capital returns.
Offshore open-ended (often domiciled in the Channel Islands)	Yes	Not usually	NAV-based	Sometimes have debt, limited cash drag. Performance is a mixture of income and capital returns.
Insurance	No	Yes	Valuation of underlying funds	Multi-asset portfolios. Can suffer from relatively high management costs.
Defined contribution pension scheme	No	Yes	Valuation of underlying funds	Default portfolios may have exposure to property funds and/or REITs. Investors can select property funds in discretionary portfolios.

* Taxation issues have been ignored

Outlined overleaf are a number of issues for investors to consider before deciding on the appropriate vehicle through which to invest in property.

9 NOTE: The majority of REITs have a high percentage of non-UK shareholders so 'Market sentiment' is not limited to just the UK.

1. General considerations

INVESTOR'S TIME HORIZON AND LIQUIDITY REQUIREMENTS

Direct property can take many weeks to sell – the time being dependent on the type and quality of the asset, coupled with the state of the property market at the time.

Some collective property funds have daily pricing, while at the other extreme funds may have very limited opportunities to redeem.

Short term

Consider:

- Real estate investment trusts (REITs) and other listed property companies
- Collective property funds that allow for liquidity at short notice, although recognising that these funds can 'gate' or 'suspend' dealing (as many did in the second half of 2016) – see more information on page 15.

Medium/long term

Consider:

- REITs and other listed property companies
- Collective property funds
- Life bonds operated by insurance companies
- Self-invested personal pension (SIPP).

ACTIVE, PASSIVE AND TRACKER INVESTMENT

Active, passive and tracker are terms used in the wider investment markets to describe a fund/vehicle's approach to specific asset risk (alpha) versus systemic market risk (beta). Direct property is a heterogenous asset so unlike equities and bonds it is not possible to have a fund/vehicle that invests in direct assets, and which is not 'active', and relatively highly exposed to asset-specific risk.

It is possible to obtain passive and tracker-style exposure to UK property through a fund/vehicle that invests in listed property securities and/or property derivatives. Alternatively, investors can hold such indirect assets themselves, although a sufficiently diversified pool of listed securities would need to be held in order to obtain market-tracking returns over the longer term. Over the shorter term, such holdings would be likely to have a higher correlation to returns in the wider listed securities market, rather than to direct property. Listed funds/vehicles can, of course, be 'active' in their approach and management of their portfolio, seeking to generate alpha (i.e. return/risk that is higher than the overall market).

INVESTMENT IN SPECIFIC SECTORS/LOCATIONS

As explained in Section 1, the drivers for growth for different sectors and locations within the UK property market can differ.

Investment by sector and/or location generally produces greater volatility in total returns than for a balanced portfolio.

Listed and unlisted investment vehicles

- Some REITs/listed property companies and funds only invest in certain sectors/subsectors of the property market, e.g. shopping centres, student housing etc.
- Others are focused on specific geographies, e.g. central London.
- Sector and regionally focused funds do not tend to be available to retail investors.

PROPERTY PERFORMANCE MEASUREMENT

The principal benchmarking organisation for the direct property investment industry is MSCI (IPD All Property Index etc.). The company provides monthly, quarterly and annual indices for the UK and other established commercial property markets, and has recently introduced an annual residential index.

Listed and unlisted investment vehicles

- The listed property market tends to use the FTSE/NAREIT indices. The European Public Real Estate Association (EPRA) also publishes indices and data.
- For unlisted funds, there is the AREF/IPD UK Quarterly Property Fund Index. The Index includes balanced funds (with property across all the main sectors) and sector-focused funds.

NOTE: Fund indices are often distorted from underlying property returns by constituent vehicles using debt and/or through market sentiment driving stock/unit pricing.

2. Assessing investment vehicles

Once investors start looking at structures to invest in, with those structures themselves holding the assets (e.g. a collective fund or a REIT/listed property company) other factors will impact the exact nature of their returns at a unit/share level.

These factors include: vehicle management costs, tax leakage, the bid/offer spread or movement in pricing basis, the impact of any leverage/borrowing within the vehicle, the liquidity requirements of that vehicle (and therefore the non-direct property assets or cash it might hold), secondary market pricing of units/shares (i.e. whether they are trading at a premium or discount to the net asset value of the underlying assets), and whether the vehicle's price is a reflection of the net asset value of actual assets or the value of derivative contracts/synthetic investments.

INVESTMENT VEHICLE STRATEGY

Broadly funds/investment vehicles will employ four styles of investment strategy, depending on their approach to investment risk.

This is shown in graphic form in Figure 13, below.

Long-dated and Core

Tend to:

- Have a low level or no gearing
- Comprise higher quality (and relatively liquid) assets with reasonable income duration and security
- Offer limited asset management opportunities
- Long-dated 15-year or longer leases that may be inflation-linked.

Core plus & Value add

Tend to:

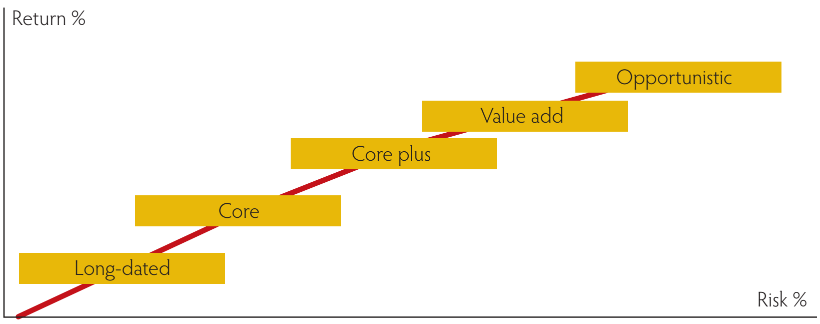
- Employ some gearing
- Focus on properties with more risk but with greater opportunity to add value.

Opportunistic

Tend to:

- Be geared
- Focus on less liquid assets with a higher risk/return reward profile, for example, largely or completely empty buildings, development sites, buildings with only a short time remaining on the leases and 'overrented' buildings.

Figure 13: **Risk/return profiles of funds**



LIQUIDITY OFFERED BY LISTED OR UNLISTED VEHICLE?

	Listed	Unlisted
Investors buying property investment exposure through a vehicle have the choice of listed and unlisted vehicles. **The liquidity profile of these options varies between listed and unlisted and unlisted open-ended and closed-ended funds.**	Listed vehicles offer liquidity in their shares so investors can acquire/dispose of their holdings on exchange with a degree of price certainty and confidence over how long that will take. However, the downside of this is that the performance of the vehicle (i.e. the market value of the shares) can be more influenced by movements in equity markets generally (particularly over shorter periods) than the valuation movements of the underlying assets.	Unlisted vehicles can be either companies or trusts, open-ended or closed-ended and geared or un-geared. Liquidity is dependent on the requirements embedded within each fund. Those offering daily pricing are likely to hold significant amounts of cash or liquid securities, which will dilute/alter the effect of the direct property portfolio performance on the vehicle-level performance. Some unlisted vehicles are completely closed-ended. Liquidity in their units is therefore entirely dependent on the depth of the secondary market, and unlike listed funds/vehicles there is no obligation on them providing a minimum free-float.

OTHER INDIRECT ROUTES

	Secondary funds market	Debt funds	Property futures
Other routes to gaining indirect exposure to the UK commercial property market, in varying degrees, are outlined here.	Not open to retail investors at present. Allows institutional investors to buy positions in existing funds. In closed-ended funds, this provides liquidity that would not otherwise exist. In open-ended funds, secondary transactions avoid the bid/offer spread on subscriptions and redemptions, assuming the fund structure does not restrict the investor to trade only with the fund manager.	At present there is limited access to this market for retail investors, although this may change if mortgage REITS are introduced or there are changes to the regulation and operation of retail funds. Retail investors can invest in real estate debt via non UK listed debt investment vehicles or via crowdfunding. Although the platforms for debt and equity crowdfunding are regulated by the Financial Conduct Authority (FCA), the underlying businesses are not and may therefore be higher risk than other investments.	An investor in property futures gets exposure to physical property via a property index (generally based on the IPD Quarterly index, which is more diverse than any REIT or unlisted fund). Property futures are transacted on a regulated financial exchange, Eurex, and attract a range of investors from large institutions to high net worth individuals. However, the current market is not very deep. Limited access to this market for retail investors at present, mainly due to the requirement to post margin on a daily basis.

INVESTMENT CONDUITS

Holdings in life bonds, defined contribution pension schemes and self-invested personal pensions (SIPPs) may mean that the investor already has exposure to property as an asset class by default.

PRICING LISTED AND UNLISTED FUNDS

Open-ended funds

Units in open-ended funds are often available as 'accumulation' or 'income' units. Both will show income accrued in their daily pricing between distribution dates, but income units will show a price fall immediately after distribution.

Closed-ended and listed funds

Listed stocks and funds usually quote their share/unit prices with income accrued between distribution dates. Once the distribution is made the price therefore falls ('Ex-dividend').

CHOOSING A PROPERTY FUND

Financial advisers advising their clients to invest in property funds available for retail investors need to understand the funds in which they are investing. The regulatory position of Non UCITS Retail Schemes (NURS) is set out on page 18. However, within this regulatory framework, there may be differences between funds as to the nature of the vehicle, the way in which the units are priced and the tools available to the manager in the event of high levels of redemption.

More broadly, choices made by the manager may be reflected in the amount of cash available to meet redemptions, the liquidity of the underlying properties in the portfolio, the strategy that the manager will adopt in the face of large-scale redemptions and a variety of other factors that will give rise to differences between funds. It may well be the case that future changes to regulation and changes implemented by managers increase these differences. Fund managers should be explaining the tools available to them and how they intend to use them in particular circumstances. It is important that financial advisers understand the potential consequences and explain them to their clients.

UNLISTED FUNDS IN EXCEPTIONAL MARKET CONDITIONS

Although funds for retail investors do not have to provide for daily subscriptions and redemptions, in practice all property funds in which retail investors can invest are currently daily traded. The dealing day normally runs from midday to midday so investors submitting a redemption request can expect to be redeemed at the next midday dealing point at the unit price on that day. Fund managers hold sufficient cash in the fund to meet expected redemption requests.

In exceptional circumstances, e.g. following the EU referendum vote, redemption requests may exceed available cash to meet redemptions. The fund manager may need to sell assets at a discount to current market value for a very rapid sale to meet redemption requests and may pass the effect of this discount through to redeeming investors by way of a dilution adjustment to the redemption price. The manager may also suspend redemptions. The precise approach varies from fund to fund, and financial advisers need to understand what mechanisms different funds have for managing liquidity demands and which they will use in particular circumstances.

Investment routes for retail investors

EVALUATION OF INDIRECT INVESTMENT ROUTE

Investment considerations

- Investment strategy
  - Core, value add or opportunistic
  - Specialise by property sectors/locations
- Investment performance
- Investment vehicle
  - Listed or unlisted
  - Open-ended or closed-ended fund
- Transparency
- Amount of investor control
- Regulation/jurisdiction
- Fund tax status
- Tax on distributions
- Costs of management
- Level of debt in vehicle

Investor requirements

- Target returns
  - Income v. capital returns
- Need for liquidity
  - On a frequent basis
  - At a given time
- Understanding of vehicles likely responses to market events
- Duration of investment
- Risk profile
- Amount to invest
- Level of control required
- Level of investor sophistication
  - Retail
  - High net worth
- UK taxpayer/non-taxpayer

LISTED OR UNLISTED INVESTMENT VEHICLES

Listed

Traded on exchange like other UK FTSE equities and subject to the listing rules of the London Stock Exchange (LSE), if listed/domiciled in the UK.

- REITs are exempt from corporation tax on their property rental business but subject to distribution requirements.
- Other quoted property companies pay corporation tax but are less constrained by distribution requirements.
- REITs can be internally or externally managed (see page 20 for more details).

Unlisted

- UK authorised funds structured as unit trusts (where investors hold units in a trust) or open-ended investment companies (OEIC), where investors hold shares in a company.
- Non-UK funds, e.g. Guernsey property investment companies, Jersey property unit trusts (JPUT)
- Life bonds
- Pension schemes
- Limited partnerships

INVESTMENT PERIOD

Shorter term

- UK fund structures
  - Authorised property unit trusts (APUT)
  - OEIC/property authorised investment funds (PAIF)
- Non-UK funds, e.g. Guernsey property investment companies, Jersey property unit trusts (JPUTs)

Medium/Longer term

- Unit-linked life bonds – operated by insurance companies
- Pension schemes and self-invested personal pensions (SIPPs)

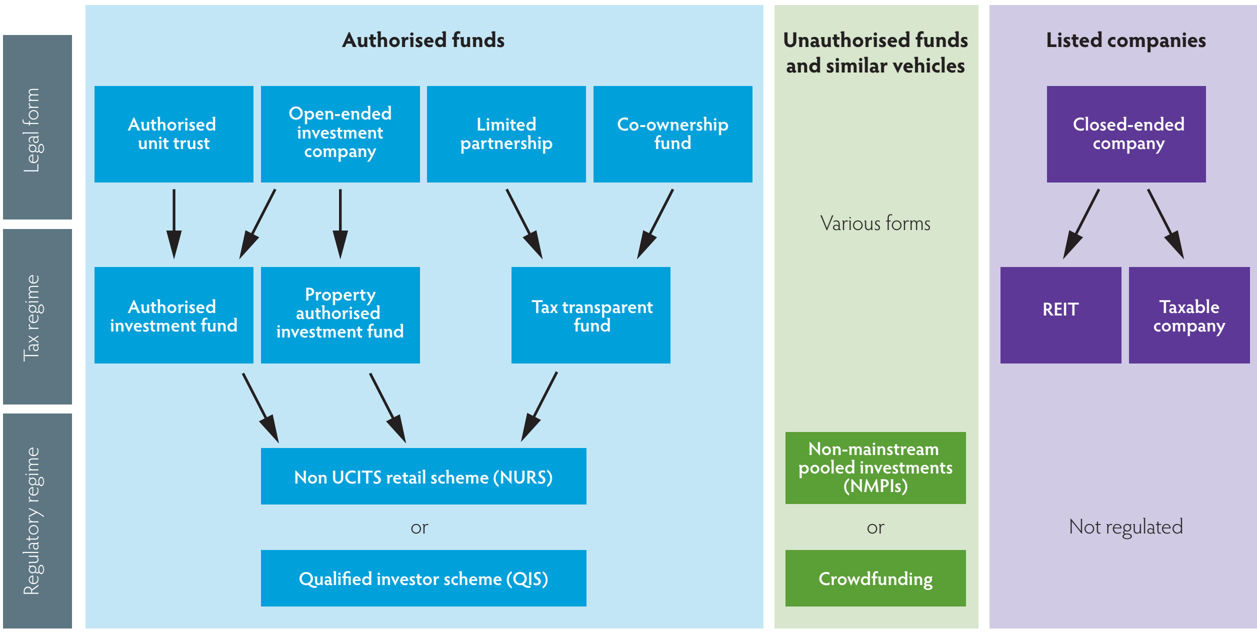
3. Investment vehicles: legal and tax overview

The UK regime regulating commercial property investment operates within a statutory framework, based on the Financial Services and Markets Act 2000 (FSMA). Commercial property itself is not a 'specified investment' under FSMA; hence direct ownership does not fall under its remit. However, if the property were held in a 'collective investment scheme' (CIS), then those holdings do come under the FSMA regime. Property investment vehicles – which do not comprise companies – are generally CISs and under FSMA, they are either 'regulated' or 'unregulated'.

Financial advisers will be representing a variety of individuals with different levels of wealth and experience. Where individuals are high net worth, professional or sophisticated investors (as defined in the legislation) the choices available to them will be greater. They will be able to invest in closed-ended funds and a broader range of open-ended funds. Other individuals, who are regarded as retail investors, may invest indirectly in property through listed property companies including REITs, pension schemes, insurance products and open-ended funds that are regulated as non-UCITS retail schemes (NURS). Investment in model portfolios via retail platforms is increasingly important. In this case the choices will be restricted further by the operational limitations of the platform, in particular the need for daily liquidity and the range of funds that are available through the platform. In terms of the operational need for daily trading, similar considerations arise in respect of defined contribution pension schemes and unit-linked insurance products.

Therefore, financial advisers need to understand not only the broad differences between different types of investment route but also the detailed differences between individual products. These are discussed below.

Figure 14: **The UK property investment universe for individuals**



A. LISTED COMPANIES

Most investment in listed property investment companies in the UK is now through real estate investment trusts (REITs). The UK REIT is a special tax status that was introduced by provisions in the Finance Act 2006 and came into force on 1 January 2007. A UK REIT must be a UK tax-resident company admitted to trading on a stock exchange that appears on the list of worldwide stock exchanges recognised by HMRC. This includes AIM and the Channel Islands Stock Exchange.

To qualify as a REIT, 75% of the company's assets and 75% of its profits must be derived from a tax exempt property business. This must consist of at least three different individual properties, none of which represents more than 40% of the value of the property business. A REIT is also required to distribute at least 90% of its rental profits. The REIT is exempt from corporate income tax on its property income and gains.

Following the introduction of the UK REIT regime in 2007, early REITs were existing property companies that converted to REIT status to benefit from the attractive tax regime. As such, they had their own management as employees of the company. More recently, many new REITs have been externally managed. As with funds, investment management services are provided by an external fund manager under an investment management contract. Investors need to understand whether the REIT is internally or externally managed, the nature of the arrangements and the cost implications.

B. AUTHORISED INVESTMENT FUNDS

Authorised investment funds may take two legal forms, an open-ended investment company (OEIC) or an authorised unit trust (AUT). Other than minor technical differences, both are treated in the same way for tax and regulatory purposes. Generally, they are subject to basic rate of tax of 20%. However there are two forms of authorised investment funds with a specific tax status. These are property authorised investment funds (PAIFs) and authorised contractual schemes (ACSs), also known as tax-transparent funds. ACSs can be established in two legal forms: (i) as authorised co-ownership schemes, and (ii) as authorised limited partnership funds. Generally only the former is suitable as a property fund.

UCITS, NURS and QIS

For regulatory purposes, an authorised investment fund must be a UCITS, NURS or a QIS. A UCITS scheme is a fund governed by the EU UCITS Directive: that invests in transferable securities or in other liquid financial instruments. It cannot invest in real estate so is not discussed further. A NURS is a non-UCITS retail scheme, which is an authorised investment fund which is neither a UCITS scheme nor a qualified investor scheme. A QIS is a qualified investor scheme. It is more restricted in the individual investors to whom it can be marketed. For individuals, the key qualifying investors are individuals who are:

a) certified as a 'high net worth investor';

b) certified as a 'sophisticated investor'; or

c) self-certified as a 'sophisticated investor'.

A QIS is an example of a non-mainstream pooled investment (NMPI). NMPIs are discussed further below.

The key features of a NURS are as follows:

a) according to the relevant regulations, subscriptions and redemptions in a NURS may be up to six monthly. In practice, such funds for retail investors are daily traded;

b) although the funds are open for subscriptions and redemptions on a daily basis, and the funds maintain enough of a cash balance to meet redemptions, this may be insufficient, in which case the fund will need to suspend. This is what happened after the EU referendum vote in June 2016. Some funds may be more likely than others to suspend redemptions. Financial advisers need to understand the approach of each fund manager to managing liquidity in the funds that they manage; and

c) the price at which investors redeem and subscribe for units in the fund will reflect the costs of buying and selling the underlying assets, in particular SDLT. This is discussed in more detail elsewhere in this document.

Where the fund is an ACS, the minimum investment for an individual is £1m.

NON-MAINSTREAM POOLED INVESTMENTS (NMPIs)

New rules came into effect on 1 January 2014 restricting the promotion of NMPIs to retail investors. NMPIs include any of the following investments:

a) a unit in an unregulated collective investment scheme;

b) a unit in a QIS;

c) a security issued by a special purpose vehicle, other than an excluded security;

d) a traded life policy investment; and

e) rights to, or interests in, investments that are any of (a) to (d).

As for a QIS, for individuals, the key qualifying investors are individuals who are:

a) certified as a 'high net worth investor';

b) certified as a 'sophisticated investor'; or

c) self-certified as a 'sophisticated investor'.

C. INSURANCE PRODUCTS

A number of managers provide investment products which are invested in by individuals through insurance products. The rules determining qualifying investments for long-term insurance contracts are set out in the 'permitted links' rules. This allows investments in land and property and in 'permitted scheme interests'. These include the following categories which are relevant for property investment:

a) an authorised investment fund, which might, amongst other things, be an OEIC or an AUT;

b) a NURS; and

c) an unregulated collective investment scheme that invests only in permitted links, which could include property as indicated above.

Investments in QIS and unauthorised funds are restricted to 20% of linked fund assets.

D. CROWDFUNDING

Crowdfunding is a way in which people, organisations and businesses, including business start-ups, can raise money through online portals (called crowdfunding platforms) to finance or re-finance their activities. Investment-based crowdfunding platforms, on which people invest in unlisted shares or debt securities issued by businesses need to be regulated by the FCA. The FCA introduced new consumer protection rules for the sale of these securities in 2014. These rules include marketing restrictions, so firms may only make direct offer promotions to retail consumers who meet certain criteria:

a) those who take regulated advice;

b) those who qualify as high net worth or sophisticated investors; or

c) those who confirm they will invest less than 10% of their net assets in this type of security.

The rules also require firms to check whether customers understand the risks if they do not take regulated advice. Firms were required to begin complying with these new rules from 1 October 2014. A further consultation was published in December 2016, so further changes to the rules can be anticipated.

Figure 15: **Legal and tax overview of principal indirect investment vehicles***

	Real estate investment trust (REIT)	Authorised property funds (OEIC and APUT)	Property authorised investment fund (PAIF)	Unit-linked life bond	Self-invested personal pension (SIPP)	Limited partnership (LP)
Legal form	PLC Must be listed and closed-ended.	Open-ended investment company (OEIC) or authorised property unit trust (APUT) Regulated and open-ended.	OEIC Regulated and open-ended.	Operated by UK life companies as life insurance policy.	Scheme for individuals to self-invest for their personal pension.	Typically contractual arrangement and closed-ended.
Open to retail investors?	Yes	Yes	Yes	Yes	Yes	No
Vehicle tax status	Exemption for property rental business income and gains. Subject to corporation tax (CT) otherwise, but typically little or no tax at the vehicle level.	Subject to CT on rental income at a rate of 20% but exemption for capital gains (non-trading).	Exemption for property rental business income (i.e. rents, REIT dividends). Subject to CT otherwise, but typically little or no tax at the fund level.	Subject to CT under specific rules.	Income and gains on investments held in SIPP are exempt from tax.	Tax levied on partners directly, in accordance with their own tax profile (vehicle is tax transparent).
Withholding tax on distributions	Distributions from property rental business are subject to 20% withholding tax but typically paid gross to e.g. UK corporates, ISAs and UK pensions.	No withholding tax on distributions.	Distributions from property rental business are subject to 20% withholding tax but typically paid gross to e.g. UK corporates, ISAs and UK pensions.	The bondholder can generally withdraw 5% of their initial investment annually without an immediate tax charge (deferred).	No withholding tax on withdrawals.	No withholding tax on distribution (non-residents may need to register under the Non- Resident Landlord Scheme to avoid deduction of income tax of 20% on rents).

* Tax rates applicable to 2017-18 tax year.

NOTE: The 22 November 2017 UK Budget announced proposed changes to tax on capital gains for non-residents. This is subject to consultation and the details of the changes are to be confirmed. The changes may have an impact on non-resident individuals investing in property funds established in or outside the UK: the latter includes Jersey and Guernsey property unit trusts.

	Real estate investment trust (REIT)	Authorised property funds (OEIC and APUT)	Property authorised investment fund (PAIF)	Unit-linked life bond	Self-invested personal pension (SIPP)	Limited partnership (LP)
Taxation of individual investors	Distributions from property rental business are taxed as UK property income (with credit for tax suffered on distribution). Any other distributions are taxed as dividends.	Distributions are taxed as dividends.	Distributions from property investment business are taxed as UK property income (with credit for tax suffered on distribution). Any other distributions are taxed as dividends and/or interest.	Intermediate withdrawals are considered when calculating the gain on ultimate surrender of the policy (no extra tax should be due unless higher rate taxpayer).	From 6 April 2015, those aged 55 or over can access their SIPPs flexibly, via drawdown or lump sums without having to purchase annuities. To the extent that the total lump sum falls within the available lifetime allowance, 25% will be tax free and 75% charged at marginal rate income tax.	Partnership profit allocations are taxed and in accordance with the nature of the underlying profits, (e.g. UK property income in respect of partnership rental income) at partners' individual tax rates.
Tax suffered by higher rate (HR) and additional rate (AR) taxpayers for the 2017-18 tax year	Property income distribution taxed at 40% (HR) and 45% (AR). Gains on disposal of shares taxed at 20% (HR and AR).	Distributions are taxed as dividends.	Property income distribution tax at 40% (HR) and 45% (AR). Gains on disposal of shares taxed at 20% (HR and AR).	HR and AR taxpayers are subject to tax on gains.	Income from annuity is taxed at 40% (HR) and 45% (AR). Contributions can benefit from basic rate income tax relief; HR and AR taxpayers can claim back additional tax relief through their returns.	Taxable partnership property income taxed at 40% (HR) and 45% (AR). Gains on exit/sale of partnership property taxed at 20% (HR and AR). Note that gains on disposal of residential property held by the LP are taxed at 28% (HR and AR).

* Tax rates applicable to 2017-18 tax year.

	Real estate investment trust (REIT)	Authorised property funds (OEIC and APUT)	Property authorised investment fund (PAIF)	Unit-linked life bond	Self-invested personal pension (SIPP)	Limited partnership (LP)
Activity limitations for Vehicle	Relevant criteria include e.g. 1) 75% of assets and income from property. 2) penalties if corporate investors hold more than 10%. 3) distribution of 90% of tax-exempt rental profits.	Distribution of 100% of post-tax income profits.	Relevant criteria include: 1) 60% of assets and income from property. 2) 10% ownership restriction for corporate investors. 3) distribution of 100% of post-tax income profits.	Subject to tax rules for UK life companies.	SIPP typically go through feeder funds to invest in properties.	No specific conditions in tax rules. Most seek to avoid trading treatment.
Transfer taxes **(References to stamp duty land tax (SDLT) include land and buildings transaction tax (LBTT) in Scotland.**	The transfer of shares is subject to either stamp duty (SD) or stamp duty reserve tax (SDRT) at 0.5% if UK company.	No tax arises.	No tax arises.	No SD when the bond is surrendered or issued for cash but can arise in other cases.	Not applicable for contributions into SIPPs, but investment transactions within scheme may be subject to SD or SDLT.	On disposal SDLT may be payable; potential for SDLT on entry. SDLT is payable on the GAV of the partnership interest, and will therefore be a higher charge to equity on a fund with leverage.

* Tax rates applicable to 2017-18 tax year.

Useful contacts

- The Association of Real Estate Funds (AREF) – **www.aref.org.uk**
- British Property Federation – **www.bpf.org.uk**
- European Association for Investors in Non-Listed Real Estate Vehicles (INREV) – **www.inrev.org**
- Investment Property Forum – **www.ipf.org.uk**
- European Public Real Estate Association (EPRA) – **www.epra.com**
- MSCI Real Estate – **www.msci.com/real-estate**
- The Personal Finance Society (PFS) – **www.thepfs.org**
- Royal Institution of Chartered Surveyors (RICS) – **www.rics.org/uk**
- Society of Property Researchers (SPR) – **www.sprweb.com**

Useful publications

Listed below are key reports/surveys and research providers covering the UK commercial property market. This list is intended as a starting point rather than a comprehensive list of everything that is available.

A. SIZE & STRUCTURE OF THE UK PROPERTY INVESTMENT MARKET

The Size and Structure of the UK Property Market End-2016 update: The report, published by the Investment Property Forum (IPF) in June 2017, examines the total UK commercial property stock by capital value, rental value, floor space, reversionary yield, sector, IPD segment and investor type. The size and ownership of the residential stock is also examined. See: ipf.org.uk.

B. MARKET COMMENTARY

There is a substantial range of one-off and regular reports by topic and property sector published by the major UK property advisory firms – see the following websites:

- realestate.bnpparibas.co.uk/bnppre/research/overview
- cbre.co.uk/research-and-reports
- colliers.com/en-gb/uk/insights
- cushmanwakefield.co.uk/en-gb/research-and-insight
- gva.co.uk/research/
- jll.co.uk/united-kingdom/en-gb/research
- knightfrank.co.uk/research
- savills.co.uk/research/uk.aspx

C. VALUATION METHODOLOGY FOR DIRECT PROPERTY

The Royal Institution of Chartered Surveyors (RICS) publishes 'Valuation – Professional Standards' (the 'Red Book'), which details mandatory rules, best practice guidance and related commentary for RICS members undertaking valuation services. It also offers a useful reference resource for valuation users and other stakeholders. See: rics.org/uk/knowledge/professional-guidance/red-book.

D. PERFORMANCE INDICES & BENCHMARKS

The most commonly used property performance indices in the UK are produced by MSCI, which publishes the IPD UK 'All Property' and then sector indices on an annual, quarterly and monthly basis. The indices measure unlevered total returns of directly held standing property investments from one valuation to the next. The annual index tracks the performance of 22,530 property investments, with a total capital value of £202.2bn (as at December 2016) compared with the quarterly index of nearly 9,000 property investments, with a total capital value of £152.2bn (as at September 2017) and the monthly index covering around 3,000 property investments, with a total capital value of £46.3bn (as at September 2017).
See: msci.com/real-estate-fact-sheet-search.

European Public Real Estate Association (EPRA)
The FTSE EPRA/NAREIT Global Real Estate Index is one of the most widely-used and recognised indices of listed property. This constitutes almost 500 real estate companies and with a combined free float value of over €1.4tn. The FTSE EPRA/NAREIT Developed Europe Index covers 104 companies with a combined value of over €200bn. See: epra.com/indexes.

The Association of Real Estate Funds (AREF)

The AREF/IPD UK Quarterly Property Fund Index provides an independent view of current market performance and the performance of the funds active within it. The index is based on a sample of 44 funds with a total net asset value of £47.4bn (as at September 2017). In addition, the AREF/IPD Property Fund Vision Handbook has detailed information on the 44 funds and can be used to gain an understanding into the key drivers of performance and as a directory of UK property funds. See: aref.org.uk/performance-data.

E. FORECASTS

Many of the UK Property Advisory firms (see major firms listed above) produce forecasts of rents and/or capital values, as do many of the major property fund managers. The IPF publishes 'UK Consensus Forecasts' quarterly (February, May, August/September and November) from 25+ forecaster covering rental and capital value growth and total returns on a yearly basis for three years, together with the five-year annualised averages. Coverage is at the UK 'All Property' level plus individual sector levels, as well as the two central London office sub-markets. See: ipf.org.uk.

F. SURVEYS

Commercial Property Lending Report

De Montfort University has been compiling this survey (undertaken half-yearly) since 1997. Based on the responses of circa 70 lenders, the reports cover various aspects of the commercial property lending market including its size, recent lending activity, typical loan terms and future lending intentions, ticket size and pricing, broken down by type of lender etc.
See: store.dmu.ac.uk/2/product-catalogue/publications/publications.

Financial Advisors Quarterly Report

Undertaken by AREF, this Survey of financial advisors provides an insight into the advisor industry and the evolving advice environment. A minimum of 300 online interviews are conducted with advisors every quarter, including at least 200 wealth advisors (IFAs and restricted advisors). Respondents are sourced from a regularly refreshed panel of 2,000+ advisors. The findings monitor use of and attitudes towards property investments.
See: aref.org.uk/search/node/financial%20advisors.

Investment Intentions Survey

The European Association for Investors in Non-Listed Real Estate Vehicles (INREV), together with its sister organisation in Asia (ANREV) and the US-based Pension Real Estate Association (PREA) undertake an annual survey of intended global property allocations, providing insight into investment trends across Europe, Asia Pacific and North America. The results identify preferences by country, property sector and investment structure. To download a 'snapshot' of the research, see: inrev.org/library/publications/210-investment-intentions.

Investment Property Forum

The IPF would like to thank the members of the 'Financial Adviser Guide Working Group', listed below, for their time and expertise in putting together this edition of 'Understanding Commercial Property Investments'.

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About the IPF

The IPF is one of the leading specialist property industry bodies in the UK. It comprises an influential network of senior professionals, all active in the commercial property investment market.

The IPF's mission is to enhance the understanding and efficiency of property as an investment, including public, private, debt, equity and synthetic exposure, for its members and other interested parties, including government, by:

- undertaking research and special projects and ensuring effective communication of this work;
- providing education; and
- providing a forum for fellowship, discussion and debate amongst our members and the wider investment community.

For further information about the IPF and its research/publications, contact Sue Forster, Chief Executive, email: sforster@ipf.org.uk, tel: 020 7194 7922 or visit www.ipf.org.uk

Investment Property Forum

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