About Investing

Property investing: bricks and mortar, or stocks and shares?

Investors are often attracted to property by the potential for growth, especially as house prices continue to rise. But there's much more to this asset class than just residential property.

One in four UK adults view property investment as the safest way to provide for retirement, according to a study published in 2020 by the Office for National Statistics.[1] Both residential and commercial property can play an important role in long-term investing, most people know of the traditional ways of doing this, such as owning and letting a property, but did you know that you can also invest in property through funds?

As with any investment, investing in property comes with risks. It's vital to understand how it might fit with the rest of your portfolio, the most suitable route for you and what to be aware of.

Setting solid foundations

Diversification is one of the cornerstones of investing, and can be a key reason to hold property – either residential or commercial – as part of your portfolio. Because different asset classes, such as bonds, shares or property, behave differently to one another, there's a good chance that when one asset class underperforms property may fare better. Property can also provide a steady, regular income, making it appealing when interest rates remain low.

Exploring property investment options

You may already own your home, and perhaps a buy-to-let property too. But when it comes to investment portfolios a popular route for investing in property is through collective funds, which may be described as either open-ended or closed-ended.

Open- ended and closed-ended funds

Unit Trusts and Open-ended Investment Companies (OEICs)

The most widely used type of collective fund, unit trusts are run by a board of trustees. Unit trusts are open-ended: units are created when people buy into the fund and liquidated when they leave, with no limit on the number of units. Investments must be sold to release cash for withdrawals. OEICs are similar to unit trusts but with a few important differences. They are structured as limited companies rather than trusts and a depositary carries out a role equivalent to that of trustees. OEICs may operate as umbrella funds, with investors buying into a sub-fund which might have different objectives to the main OEIC.

Both unit trusts and OEICs may offer different share classes, the most common being accumulation (where income is added to the fund) and income (where it is paid to the investor).

Investment Trusts

Investment trusts are listed companies: a set number of shares are created and then sold on a stock exchange. They are closed-ended in that no new shares can be created to meet demand. Instead, demand will be reflected in the price at which shares trade.

Real Estate Investment Trusts (REITs)

REITs are a particular type of investment trust which own or invest in incomeproducing real estate. Because they are closed-ended they don't have to sell assets to pay investors. They are also exempt from corporation tax on property income provided they meet certain criteria, such as paying 90% of income to investors as dividends.

The requirement for open-ended funds to sell assets can cause challenges when many people seek to liquidate or cash in their investments at once. Property is a relatively illiquid asset class – it takes time to sell large properties. Acting under pressure can mean selling at less than a property is worth. Several property funds have had to impose restrictions in recent years to protect investors from the effects of largescale withdrawals, most recently as a result of the pandemic.

The UK regulator, the Financial Conduct Authority, is looking at introducing statutory notice periods of up to 180 days for withdrawals from property funds.[2] This measure is already in place in some markets including Germany.[3]

Commercial property investing and the pandemic

Offices, hospitality locations and shops were hit hard by the lockdowns imposed by governments around the world from March 2020. For example, in the US the number of shops and cafes in Manhattan fell by more than 17% over the course of that year.[4] The end of 2020 also saw a two-decade high in vacant shops in the UK, with the biggest increase in empty offices since the 2008 Global Financial Crisis.[5]

Yet where there are challenges, there are usually opportunities. The growth in online sales drove up demand for warehouses, with an estimated additional 300m square feet needed in Europe by 2025.[6] The move to digital also required more and larger data centres with investments across Australia, Japan and throughout Asia.[7]

Surveying the property landscape

There are two main types of property funds:

- Direct property funds – buy commercial property such as offices, shops, warehouses and industrial buildings, although some own residential property.
- Indirect property funds – buy shares in listed property companies. This can ease liquidity and provide access to global property shares for greater diversification.

You may be invested in property even if you don't have money in one of these funds. Income funds, for example, or funds focused on a particular region or country, will often have some form of property exposure. Similarly, multi-asset funds invest across a range of asset classes and funds, often including property funds. A fund's holdings are listed on its fund factsheet.

The pros and cons of buy-to-let

The most obvious advantage of buy-to-let investing is capital growth – according to Nationwide the average price of a UK home had increased from £95,356 at the start of 2002 to £273,135 by 30 September 2022[8], although it must be remembered that past performance is not a guide to future performance. There is also the prospect of regular income from rent as well as tax-credits on buy-to-let mortgages, although the system is less generous than it used to be.

However, there may be periods with no tenant in the property, meaning no income with mortgage and running costs still to be paid. If you're managing buy-to-let properties yourself this can be time-consuming, and it may be worth speaking to a finance professional to understand the potential tax implications.

Building for the future

Property investing can take many forms. Its own innate diversification together with the added diversification of multi-asset funds can offer investors more balanced exposure. If you're unsure of your best route, you might find it helpful to speak to a financial adviser.

Learn more!

Investing can feel complex and overwhelming, but our educational insights can help you cut through the noise. Learn more about the Principles of Investing **here**.

[1] Mortgage Introducer – ONS, 5 August 2020
[2] Financial Conduct Authority, 7 May 2021
[3] Funds Europe, 4 August 2020
[4] The New York Times, 17 September 2021
[5] Reuters, 28 January 2021
[6] FT.com, 22 June 2021
[7] Cision PR Newswire, 4 October 2021
[8] Nationwide, 30 September 2022

Asset Management

Let's be clear!

Investment terms explained

Asset class: A group of investments with similar traits. shares, bonds, property, cash and alternatives are all examples of asset classes.

Bond: A bond is a loan issued by a government or a company. When you buy a bond, the issuer promises to pay a certain amount of income until the bond redeems and is repaid by the issuer. The strength of that promise varies by the issuer of the bond. This is known as creditworthiness.

Diversification: Spreading your money across different investments to help manage risk.

Liquidity: Refers to the ease with which an asset or security can be sold and converted into readily available cash without a drastic change in its market price.

Multi-asset fund: A fund that offers a diversified, mixed asset portfolio.

Portfolio: A group of investments that are managed together to meet a particular objective.

Property: Property or real estate investment refers to land, buildings or both purchased with the intention of earning a return on the investment either through rental income, the future resale of the assets, or both.

Shares (often referred to as equities or stocks): In investing, this is a share of ownership in a company. Investing in a fund gives exposure to underlying share prices without investors actually owning the shares themselves.

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