



Property investing – an overview

As an asset class, property is distinct from equities, fixed income and cash (see REITA Fact Sheet – How do asset classes compare?), and has a role to play in portfolios construction as:

- a source of diversification over the long term
- a potential source of capital growth and rising income

What are the drivers of increased property values?

- The underlying need for work or living space (which is related to the economic cycle) drives occupancy demand and generates rental income
- Regular (and with commercial property, normally upward) rent reviews drive potential for long term rising rental income
- Demand for ownership of the asset's income stream and speculation about the long term supply and demand of property drives changes in capital value

Two broad categories of property:

Residential property

The UK residential property market:

- Is valued at £3,400bn (source IPF)
- Is almost 5 times the size of the commercial market

However, over 70% of residential property is owner occupied (source Joseph Rowntree Foundation) and so falls outside the commercial investment market.

Residential property includes:

- Main homes and second homes
- Buy to let and buy to sell properties
- Holiday homes
- Housing trusts/associations.

Buy to let (B2L):

- Interest has grown rapidly in recent years
- But at £374bn only accounts for about 11% of the £3400bn residential market (source IPF)
- Remains less developed than commercial property market
- Tends towards smaller properties on short lets
- Tends to be occupied by niche customers such as students or employees on secondment

Commercial property

The UK commercial property market:

- Is valued at about £760bn (and rising)

Of which, about half is investment property that is:

- Rented to tenants
- Owned mainly by financial institutions, UK property companies (listed and private) and overseas investors

Private investors, except those with substantial funds, have limited access to commercial property and tend to rely on pooled funds. The introduction of REITs opens up a new avenue of investment for private investors.

Commercial property includes:

- Three core sectors – retail, offices and industrial sites – accounting for some 80% of the UK market (source IPD)
- Smaller specialist sectors such as leisure facilities, student housing and healthcare facilities

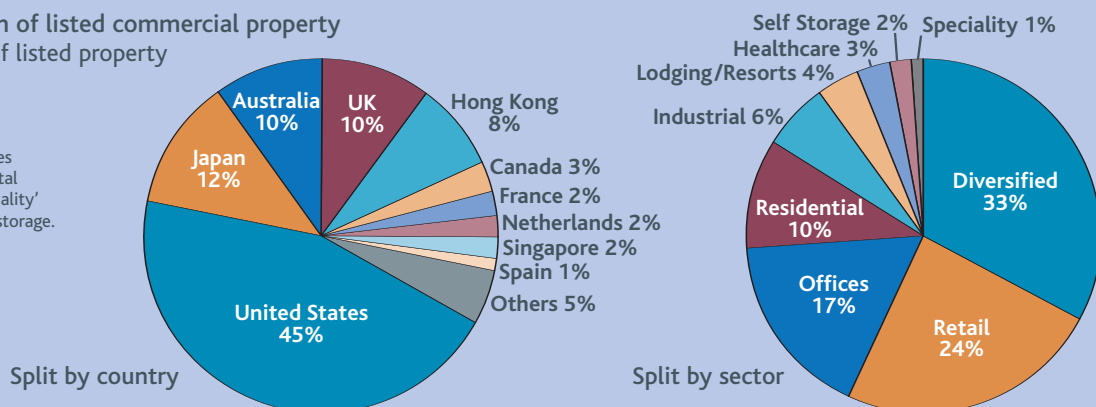
Commercial property offers:

- UK sector diversification across core and secondary sub sectors
- Low performance correlation with equities and fixed income
- Lower volatility than equities
- Longer leases (average 7.3 years, source IPF) than residential property and consequently a more reliable income

International distribution of listed commercial property

Global total market cap of listed property is £573bn

Source: EPRA April 2007
Note: Diversified sub sector includes companies with less than 75% rental income from any one sector. 'Speciality' includes student housing and self-storage.



How to invest in commercial property

One: Direct investment

- Investors can buy commercial property on the open market in the UK and internationally
- Investors need substantial funds and access to expert management resources to build suitably diversified portfolios

Two: Indirect investment

Through:

- Pooled investments holding physical UK and international property or shares in property companies.
Types of funds include;
 - UK life assurance funds and pension funds
 - UK authorised funds (unit trusts and OEICs)
 - Offshore funds
- Property company shares listed on UK and international stock markets
 - Choice of some 30 public companies listed on main London Stock Exchange
 - About 70 companies listed on London Alternative Investment Market (AIM)
 - Real Estate Investment Trusts (REITs) listed on London main market (currently thirteen REITs, as at April 2007, although more companies are due to convert and new REITs will launch in future)
 - Deliver short term volatility characteristics of equities combined with long term characteristics of property investment where changes in share price are highly correlated with the value of underlying assets.
Must be considered a long term investment to reap this value

Each route has different structures, charges and tax treatments (for more details see Chapter 6 of the IPF's "Understanding commercial property investment: A guide for financial advisers, 2007 edition").

Further information

- The Investment Property Forum (IPF) "Understanding commercial property investment: A guide for financial advisers, 2007 edition" – available from either www.reita.org or www.ipf.org
- AIFA Viewpoint – An introduction for IFAs to Real Estate Investment Trusts – REITs available from www.reita.org or from AIFA (info@aifa.net)
- The London Stock Exchange "A new route up the property ladder." Available from www.londonstockexchange.com
- REITA www.reita.org

Important information

The value of investments and the income derived from them can go down as well as up, and you may not necessarily get back the amount you invested. Past performance of an investment is not necessarily a guide to its future performance.

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