

## Is UK Property and Land a good investment?

UK Property, residential and commercial, together with land, development and agricultural, has always been a popular investment class, particularly in the off-shore and ex-pat market place. However, is this still the case? – given the continuing doom and gloom reporting on: the lack of availability of finance for property purchase and development; poor trading results for building and development companies; and a farming community that continually appears to be weathering crisis after crisis, e.g. this winter's frost killed off the bulk of the sprouting broccoli crop (children everywhere cheered that piece of news). An Englishman's home may still be his castle but is his property and land still a good asset class for an investor?

A popular medium for investment has been those property funds that invest in the shares of property companies. Let's look at some property fund performance figures. The IShare FTSE EPRA/NAREIT UK Property Fund is a property fund tracker investment launched in March 2007 and the unit price performance from inception to 18<sup>th</sup> March 2011 has been -50.52% or an annualised -15.44%, although the 12 months to date performance was +25.61% ([www.uk.ishares.com/en/rc/products/IUKP/performance-18/05/2011](http://www.uk.ishares.com/en/rc/products/IUKP/performance-18/05/2011)).

However, if an investor was to buy directly into land and property the medium term picture looks very different, for instance:

An investment in residential property over the same period of time as the property fund tracker product would have, on a UK wide basis, have lost only -7.5% (Nationwide House Price Index 19/05/2011).

Residential development land is in very short supply but, thanks to the credit crunch and the stalling of the new house build market because of the shortage of development funding, values fell by 40% from 2007 to Q4 2010, with an annual growth to Q4 2010 in the Greater London area, for instance, of 5%. ([www.knightfrank.co.uk/news\\_04/02/2011](http://www.knightfrank.co.uk/news_04/02/2011))

Agricultural land was the star in the property market place. A 5 year growth figure wasn't available rates are likely to accelerate with an increase of 17% for the year to 2010, a projected 16.2% for 2012. ([www.knightfrank.co.uk/news\\_12/10/2010](http://www.knightfrank.co.uk/news_12/10/2010))

A tracker fund is going to track the whole of the market and the returns would be pulled back by the fall in the value of the assets of residential property developers but, if it has an agricultural element, would be boosted by the agricultural assets. Investing in the shares of property companies would clearly expose the investor to the track record of the company and the spread of asset types; although it is probably fair to say that most property companies specialise in one particular market.

This leaves a final option to the advisor of seeking an investment for their client that directly invests in land and property and is dependent for its return on the performance of the land and property values only. Unless an investor has a significant amount of cash available and wants to buy directly

into a particular development, commercial property or farm business chances are they will want to benefit from the spread of risks offered by a collective investment product.

The UK UCIS market now offers a wide range of funds to offshore as well as onshore investors that will give an investor access to specialist and clearly defined land and property markets but with all the risk mitigation benefits offered by a collective investment. Funds are available from specialist UCIS providers, which provide access to residential land with development potential and farming property and businesses and the advisor and investor can choose which land or property market they are exposed to. You can even invest in property finance, with security over the property as an asset but which provides a regular flow of income that is significantly in excess of what the investor could earn on cash deposit accounts\*. These funds provide gross returns to the ex-pat or offshore investors and, in the case of those that invest in agricultural land, can also offer CGT and IHT planning benefits.

The UK land and property market is still worth a look at as, to use a truism, land is a finite resource. Access to land, property and property finance is available to all investors, whatever the size of their portfolio. The message here is, don't ignore UCIS products as there are some very interesting asset classes out there and can any advisor honestly claim that a unit trust investing in the shares of property companies is less risky than an investment that actually holds land or property, or security over the property, as an asset.

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\*Potential investors in UCIS products must be reminded that, unlike cash deposit accounts: they will not benefit from the protection of the Financial Services Compensation Scheme; the return of the capital invested in the UCIS cannot be guaranteed; and, similarly, the income distribution on a UCIS may be described as fixed but is not guaranteed.