

# IS IT HARD TO TURN PROPERTY INTO CASH?

**Nick Yeomans**, managing director of Wilky Fund Management argues it's a matter of perception

The traditional argument for investing in property is that it will diversify an equities and bonds portfolio. This is because its 'cycle' – which involves alternating shifts over time when returns go up and then down – usually runs counter to that of these other asset classes.



There are, however, other very valid reasons, the first being that property provides a steady income stream from rents, in addition to preserving capital.

Secondly, if your tenant goes to the wall, you would still have an asset to rent out again or sell.

But despite property's stellar performance in recent years, some trustees remain cautious because they regard property as illiquid, meaning they can't unlock the money they invest in it so easily. True, an office block takes longer to sell than a parcel of shares, but is that really a huge problem?

Property should be used as a long-term strategic asset to match long-term liabilities, rather than a tactical tool capable of capturing the benefits of market fluctuations. Another reason for treating it as a long-term hold is because transaction costs are high.

These issues may help explain the recent popularity of indirect property investments; that is investing in property funds rather than owning property directly. But although indirect property may provide that tactical element missing from real estate investment, it also prevents the pension scheme from benefiting from the stock selection skills of a direct property manager. Acquiring the right property at the right time can provide the touch of stardust that enables the portfolio to outperform its benchmarks.

Even smaller schemes can participate successfully in the property market. By investing in market segments with smaller lot sizes, for

example high street shops, industrial units and provincial offices, it is entirely feasible to build a well-diversified portfolio. If exposure to larger lot sizes, such as retail warehouses or larger London offices is required, then indirect investments can

provide the solution.

Illiquidity only becomes an issue if the owner is faced with large and unforeseen cash requirements. However, given that most schemes are able – indeed are required to – predict their cash requirements many years in advance, does it really matter that real estate sales take a few months?

Not only are a pension scheme's needs predictable, they are often long-term. As active membership dwindles, mature pension schemes can be faced with a net outflow of funds into pensioners' bank accounts for periods of 20 years or more. Given this sort of notice, it would be a poor property manager indeed who could not set up a properly considered disposal programme to deliver a matching income stream.

Given this sort of requirement, the returns generated by property and its diversification benefits should make it an asset class of choice, rather than one to be shunned. ■

*WFM provides property investment management services to major institutional clients. Now integrated with a long-established private property group, it adds extra value through energetic portfolio management strategies. Nick is primarily responsible for the formulation and implementation of the investment strategies of our client funds. He has been with the business for 15 years having joined from Sun Life Properties. He has an Honours degree in Estate Management and qualified as a member of the RICS in 1983. Nick holds an RICS Diploma in Property Investment and is a member of the Investment Property Forum*

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