

# Investor's *handbook*

## Commercial Property

**T**he thought of investing in commercial property may fill you with dread – images of gleaming but deserted city office blocks, for example, may spring to mind.

But commercial property often isn't about investing in the latest urban architectural statement. It's usually a lot more mundane and lucrative than that – think more provincial city centre precincts, those often ugly but bustling 1960s arcades.

The other common misconception is that people tend to assume commercial property means buy-to-let property, but the two are completely unrelated. While factors such as interest rates might cause ripples in the housing market, it is how the economy as a whole is doing that really affects commercial property. "That makes it an investment that is much less volatile than the housing or the stockmarket," asserts Philip Pearson, *Moneywise* panelist and partner at IFA firm P&P Invest.

**'Commercial property funds are much less volatile than house prices or the stockmarket'**

Investing in commercial property – which typically includes office blocks, shopping centres, industrial units and sometimes factories – can be done in two ways. If you are wealthy enough, you could purchase one. However, unless you are rich enough to buy numerous commercial properties of different types and in different locations to achieve a good spread of assets, investing directly in commercial property can be an inherently risky business – just like investing in one or two shares is.

The second and more practical approach is to invest in a property fund. They pool investors' money and buy a variety of commercial buildings in different locations to rent out to corporations. The funds are either unit trusts, life bonds or investment trusts.

Steve Marriott, fund analyst at IFA Bestinvest, says investing in property funds generally costs more than other investments, such as equity funds, because of expenses such as stamp duty and legal fees. Roughly, he says typical initial charges for a property fund are about 7% compared to 5% for equity funds.

In addition to higher charges, commercial property funds are not seen as being as 'liquid' as stockmarket funds. "While many funds have some shares in property development companies and cash holdings to combat this, if large sums of money are to come

out of the fund at once, there may be a hold up while property is sold," says Pearson.

Unlike buy-to-let property, returns are not focused on rising property values, but rather consistent and stable rental yields. Property funds, therefore, may not offer the same upside as equities, but can provide a steady income stream.

"Commercial property sits halfway between bonds and equities. In terms of investors, it is especially good for people



- Investing in commercial property for the medium to long term can provide steady returns with less risk than shares.
- It keeps diversity in your portfolio. A fall in blue chip stocks, for example, could be counterbalanced by the yields you receive from a commercial property fund.
- Unlike buy-to-let property, commercial property returns are not heavily influenced by property prices. Rather, yield levels are governed by the health of the economy.
- Property funds can be more expensive than equity unit trusts and investment trusts.

who are close to retirement or retired who don't want all their money in bonds nor in equities," says Simon Pople, head of investment management at Strutt & Parker Real Estate Financial Services.

And in contrast to buy-to-let, commercial property usually involves a tenant who is generally on a long-term lease. That tenant may be a FTSE-100 company providing a relatively safe, steady income stream. In comparison, domestic buy-to-let tenancy contracts are often only six months long, managing the tenant is down to you, and you face the risk of having an unoccupied property.

**Sonia Speedy**