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eclips
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Should you prepare for a crash?

Is it too late to get into commercial property?
The general view is that the best times are over for commercial property, although the market is unlikely to crash.

The commercial property sector has been a better investment than shares or the residential buy-to-let market over the past five years. It has risen more than 75%, more than three times the rise in the FTSE All-Share, according to Investment Property Databank.

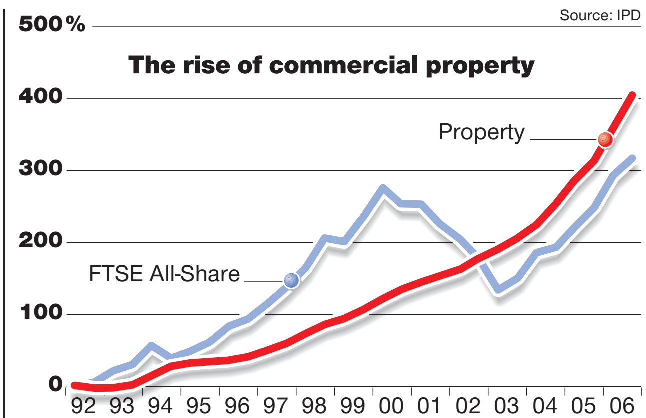
But most analysts agree that this is likely to be the top of the market, with returns expected to slow to between 7% and 9% this year.

Mark Dampier at Hargreaves Lansdown, an independent financial adviser, believes returns have probably peaked, and it is too late for investors to buy into the sector.

He said: “It is the wrong time in the cycle to be getting into commercial property because it looks expensive.”

But other advisers think it is still worth considering. Your current exposure to the sector should be the deciding factor.

If you already have exposure to commercial property, now is not the time to be piling more money in. It could be worth considering if you don’t, though, as returns are still likely to beat cash and it diversifies your portfolio.



Commercial property is relatively uncorrelated with other assets — the market does not tend to go up or down at the same time as equities and bonds — so it can protect your portfolio from sharp declines in these assets.

It is also viewed as a relatively low-risk investment because most properties come with long-term leases, agreed with tenants, of at least 10 years, providing a predictable source of income.

What are Reits?
Reits — real-estate investment trusts — are listed property companies that do not pay corporation or capital-gains tax (CGT). They were launched in Britain on Monday and so far 10 companies have converted to Reit status. These include British Land and Land Securities.

Previously these companies had to pay tax on the income and profits they earned. Reit status means they can avoid these costs.

Investors should benefit from higher dividend returns because Reits are required to hand back at least 90% of their income to investors.

Are Reits the best way to invest?
Advisers say that investing directly in Reits will be too risky for most investors.

You are investing in a share, so performance will be more closely linked to the stock market than commercial property.

If you are prepared to take the extra risk, advisers recommend a collective fund of property shares rather than an individual Reit because you will have exposure to a range of companies.

There are no UK Reit funds yet because the investment vehicle is so new. However, Aberdeen Property Share invests in property firms and its portfolio includes some that have already transferred to Reit status such as Hammerson and Liberty International.

Other funds offer direct exposure to commercial property. Many advisers prefer these schemes because they are less volatile than those that are exposed to the stock market.

Patrick Connolly at JS&P Towry Law, an adviser, recommends Swip Property Trust and M&G Property.

I already have exposure to commercial property, what should I do?
If you invested in a property fund five or six years ago, you will have done really well. Now is probably a good time to adjust your portfolio, take some of the profits and reinvest them elsewhere.

Advisers recommend having 10% to 15% of your portfolio in commercial property.