Top fund manager admits: ETFs are better value! Page 69

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Recovery plays: private property funds

Private property funds are ubiquitous, but they are not always the best route

Outside of the institutional sector, many private houses are setting up property funds suitable for private investors. They will certainly raise money — but will they be able to meaningfully spend it?

Recent weeks have seen a slew of fund launches from big names including Seven Dials and Coba Asset Management. Typically, recovery fund managers are all chasing the same type of product — properties let on long leases to tenants with good covenants, with a rental yield of 8 per cent or more.

"We get people coming in every week saying they are starting a fund, and want to source properties that fit this description," says David Ereira from property investment specialists Ereira Mendoza. "I tell them that to get a yield like that they had better start looking in Poland. The scarcity of this type of property in the UK means there are lots of buyers chasing it, many being cash purchasers, and the yields are far less than their expectations from even three months ago. Are we seeing true

green shoots here, or just gilded lilies?" Aside from the execution risk, a major disadvantage of private funds is that investors typically have to lock their money away for a five- to seven-year term. Many private funds are structured so they are not subject to regulation, necessitating laborious reading of small print (watch out for hefty management fees and performance incentives). Investors would be crazy not to research the reputation and track record of directors.

A number of private investor funds that have sent prospectuses to Investors Chronicle notably have a very small number of properties in their sights, which concentrates asset risk.

On the plus side, these types of vehicles can allow exposure to niche property areas that are otherwise hard for private investors to access, such as portfolios of student accommodation or central London residential (two areas touted as being particularly defensive). Another interesting niche is Pinder Fry & Benjamin's Data Centre Fund, which has already raised £56m of equity and aims to capitalise on the shortage of data storage sites as we enter the digital age.