Property Week

FEEDBACK

# End of the road for property funds?

By Daniel Austin Thu 1 July 2021

**Editor: The article 'All eyes on Aegon after Aviva winds up UK property fund' turned out to be an accurate prediction as Aegon has now announced the closure of its funds, also covered by *Property Week*.**

Source: Shutterstock / Wright Studio

These funds and many others were significantly hit by Covid and were suspended while valuations could not be carried out. After many others reopened, Aviva, and now Aegon, did not achieve the economies of scale and diversification that these collective schemes should offer and had to wind up the funds.

But it is not just Aviva and Aegon that have struggled. The entire sector has been suffering, reflected in the poor performance of funds that have reopened. The outlook could be considered quite bleak. Outflows from real estate funds have now reached

£5.6bn after investors sold their stakes for 32 consecutive months, according to data from funds network Calastone. The worst month was March this year when £589m was withdrawn.

These funds will most likely be further hampered by the FCA's proposed regulations to solve the so-called "liquidity mismatch", where fund managers run out of cash to satisfy withdrawal requests from investors. The FCA proposes to resolve this common problem by enforcing a 90-day notice period. This will create significant challenges for funds, in particular operationally, in relation to how the purchase and sale of holdings will work with notice periods.

Perhaps we shouldn't have just been thinking 'all eyes on Aegon' but on an entire sector, as we may be seeing the start of its demise.

Yet, as we saw in the past when banks became more stringently regulated after the financial crisis, challenger banks and alternative lenders came along. Maybe this will be a catalyst for investment in property debt, an option that allows investors to be closer to the action, with the chance to select deals, manage their portfolio, make returns of around 8% and in some cases create liquidity through an exchange. After all, there is now £5.6bn looking for a new investment class.

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