

Title: [A REIT of Passage: Investing in Irish Property](#)

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Last year marked a turning point in the fortunes of Irish Commercial Property, as indications of a recovery emerged throughout 2013. All sectors of the market experienced increases in both transactional activity and values<sup>1</sup>.

Demand for prime properties continues to be strong in 2014, with the value of Irish property transactions for the first quarter of 2014 exceeding over 50% of the total transactions for 2013 as a whole<sup>1</sup>.

It was estimated by Goodbody's in 2013 that there was €55bn of Irish related investment property loans across the Irish banking system and NAMA. Whilst all are not 'for sale', NAMA, Certus/Lloyds Ireland, Ulster Bank and Danske are all in deleveraging mode.

### [So how do investors access the Irish Commercial Property market?](#)

Unit-linked property funds that invest directly in bricks and mortar have long been the traditional route for investors looking for exposure to the Irish property market. However, the game was changed in 2013 with the introduction of legislation through the Finance Act 2013, allowing for the establishment of Real Estate Investment Trusts (REITs) in Ireland.

At Zurich we have just launched our new Fund of REITs, a unit-linked fund that provides investors with access to predominantly commercial property by investing in a selection of REITs established within the Irish market. At launch the fund was invested in Green REIT (80%) and Hibernia REIT (20%). The allocation to each REIT is actively managed by the Zurich Life investment team in Blackrock. The investment mandate for the new Fund of REITs allows us to incorporate any number of Irish REITs into the fund (as and when they become available).

### [Understanding REITs](#)

REITs were first established in the US in 1960 and were designed to make investments into large-scale, income producing property available to investors, without the need to invest in physical bricks and mortar. REITs paved the way for investors to gain access to the commercial property market in the same way they gain access to other industries – through the purchase of shares in a company.

REITs are designed to generate investment returns in two ways: firstly, through exposure to the value of the property assets that the REIT owns (and with the accompanying capital growth); and secondly, through rental income.

<sup>1</sup> Source: CBRE, April 2014

To fully understand how REITs work, you must first look at the structure of a REIT and then look at the differences between a REIT and other property stocks together with how they differ from unit-linked property funds that invest directly in property.

### **What are the main features of Irish REITs?**

A REIT is a publicly listed company which has as its main activity the ownership and management of property-related assets.

To qualify as a REIT in Ireland, the company must:

1. distribute at least 85% of its property related income, net of management charges, by way of dividends to shareholders.
2. must generate at least 75% of its income from property rental.
3. must have a loan to market value of less than or equal to 50%, i.e. the level of borrowings within the company cannot exceed more than 50% of the market value of properties held.

This is not an exhaustive list of the main features of a REIT, but they are some of the main characteristics.

### **How do REITs differ from unit-linked property funds that invest directly in bricks and mortar?**

The first difference is that unit-linked property funds are not required by law to distribute at least 85% of their net property income to shareholders; whereas REITs are. The dividend payout obligations on REITs mean that a much larger share of total returns come from dividends, when compared with other equity investments. With Zurich's Fund of REITs, **all dividends are reinvested into the fund.**

But second difference between the two is the availability of liquidity. A bricks and mortar fund can facilitate redemption requests for policyholders in a number of ways; from inflows from other investors, from existing cash within the fund or from property sales.

However, during periods of property market stress, a bricks and mortar property fund may find it extremely difficult to meet investor's redemption requests, often resulting in a 'deferral period' being imposed. This was the case for a number of funds that were available to Irish investors during the market crash. The imposition of a deferral period could also expose investors to further falls in property valuations.

REITs on the other hand have better liquidity characteristics. As REITs are traded on a stock exchange, it is easier for investors to move in and out of their property investment – just like an equity share. There is no threat of a deferral period applying to an investment in a REIT.

<sup>1</sup> Source: CBRE, April 2014

## **REITs are not without risk!**

While property is typically illiquid, REITs are more easily traded. However, because of their status as listed companies, REITs also leave the investor exposed to stock market volatility. Investors need to remember that they are investing in property shares, not bricks and mortar.

Of course, this being Ireland, the performance of the property market is a key risk factor. A fall in the value of the underlying properties will negatively impact on the returns to investors.

A high vacancy rate will affect overall rental income, as will a drop in rents. Short tenancy agreements can also lead to unstable rental income. It is also important to note that dividends may not be paid by the REIT if it reports an operating loss.

The opportunities in the Irish Commercial Property sector have been well publicised and our new Fund of REITs may be an attractive proposition for your customers. The fund is available for regular and single premium investors through the Prisma Platform at our standard fund management charge. For further information on the fund, please contact your local Zurich Life Broker Consultant or visit the broker centre at [zurichlife.ie](http://zurichlife.ie)

Zurich Life Assurance plc is regulated by the Central Bank of Ireland.

**Warning: The value of your investment may go down as well as up.**

**Warning: If you invest in this product you may lose some or all of the money you invest.**

<sup>1</sup> Source: CBRE, April 2014