

METHODS OF INVESTMENT IN PROPERTY

There are three main methods of investment in property -

- (1) Mortgages
- (2) Direct Ownership
- (3) A link up with a property development/
investment group.

(1) Mortgages

You can well imagine that mortgages on property for a fixed term at a fixed rate of interest do not interest me with my 100% equity outlook but for those who do not follow this policy, mortgages on property would form a very useful and remunerative alternative to Debentures and Preference Stocks.

(2) Direct Ownership

Our first ventures into property investment were by direct ownership and were, somewhat naturally, into well developed properties in first class situations and with the premises all let to well respected tenants. Not unnaturally, the returns, although not ungenerous compared with Stock Exchange securities were not of the same order as one could expect to receive from premises which were not developed. Unfortunately, however, most of the larger and more worthwhile propositions in the development field seemd to be getting into the hands of the big developers such as Cotton and Clore. They, for their part, were quite ready to take on more and more propositions but obviously their finance was not limitless. They therefore approached various institutions such as Insurance Companies and Pension Funds with a view to forming joint development companies, so that although the entire benefit of the equity of a developing property was not obtainable for the Pension Fund, a fair proportion could be secured, which leads me to the third method.

PROPERTY

There is no doubt in my mind that investment in real property is eminently suitable for a pension fund investment portfolio.

The chief reasons could be briefly stated thus:-

- (a) Such investments are extremely long term (in fact generally undated) which fits in with the liabilities of the majority of pension funds.
- (b) They will benefit (that is if the equity of the property has been the subject of the investment) from any continuing inflation, which I am convinced will continue.
- (c) Even if there is no further inflation this will, I am sure, lead to a growth in the economy which will permit a marked rise in the overall standards of living and which should also allow margins for increased rents on shop and office premises when present leases fall in.
- (d) Because of the expense involved in continually revaluing the properties one is not embarrassed by the question of market value from time to time. Indeed, I think this is one of the great weaknesses in the arguments brought by the auditors to our funds when they insist on the balance sheet showing the market value of the Stock Exchange investments. If, as seems probable, many pension funds will have quite an appreciable proportion of their funds invested in property, the auditors will not insist on the Funds going to the expense of having the properties revalued each year and therefore this section of the investments will constantly appear at book value in the accounts, thus rendering less valuable the statement of value concerning the Stock Exchange investments. I am in favour of a note being included in the balance sheet to the effect that the assets are fully of the value stated without going into half-hearted attempts at showing to what extent the market value exceeds the book value, especially as market values are usually misunderstood by the members of the Fund.