

Getting the edge with managed funds

Owning property through managed investments

Australians are passionate about property - but buying a house is only one way to break into the property market. With rising interest rates making it more expensive to borrow money, and the average price of a house in an east coast capital city costing close to \$400,000 - investing in residential property demands a significant outlay, and in most cases debt. But there are other ways of becoming a property investor without the huge expense.

Getting a foot in the door

If property is the chosen investment for you, but you're unsure about buying a house or a unit - a managed investment can be an easy way to break into the property market with a much lower initial investment. A managed investment can give you access to the property sector, while providing a number of additional advantages at the same time:

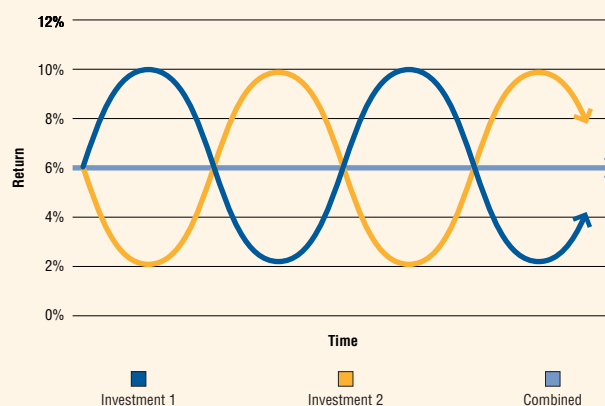
Diversification

Managed investments pool your money with other investors. Through this combined purchasing power you gain exposure to a range of property investments - whether that be numerous property sectors, such as retail, commercial or industrial - or within a specific sector.

Spreading your investments across a range of properties lowers your risk levels - compared to that of a residential investor, where there's a higher chance of isolated events, such as interest rate rises, pressuring the value of your property.

Increased buying power also means you can access sectors of the property market otherwise reserved for the extremely wealthy - such as office towers and shopping centres - well beyond the scope of the average individual investor.

How it works

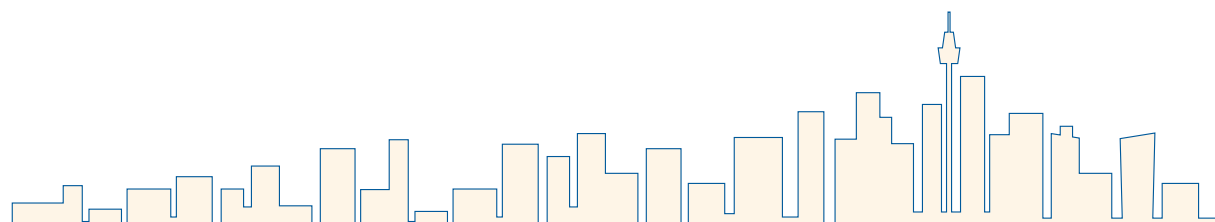


The chart shows returns from two investments; while one is generating high returns the other is generating low returns, and vice versa (the two wavy lines in the chart). By investing 50% of your money in each, your total return (the light blue line) would fall mid-way between the returns of the two investments - in effect smoothing your return and reducing risk.

In reality, no two investments behave exactly in this way, but there is enough variation to make diversification a key risk management strategy.

Liquidity

While selling a house may take some time, you are able to liquidate your holdings in a managed investment quite quickly. You also have the option to sell a portion of your investment - unlike your house where you can't auction off your kitchen if you need access to some of your money.



Expertise

When you invest in a managed investment, your money is managed by a professional fund manager, who has the knowledge to determine which properties offer the most value, in terms of capital growth and income.

Convenience

Investing this way also means you don't need to think about any of the hassles associated with owning your own property, such as finding tenants and ongoing maintenance. Your fund manager will take care of the property management, keep you updated and provide you with regular reporting on your investment.

Access to property without the cost

One of the biggest advantages of managed investments is the low initial investment required. In most cases, the minimum capital investment required to gain exposure to property is around \$1,000. On top of this, you don't need to think about additional outlays you might expect if you were a direct investor, such as insurance, council rates, strata fees or stamp duty.

While most of us consider it natural to borrow to buy a home or an investment property, you can also borrow money to invest - which is called gearing. Property is a popular geared asset, however you are also able to gear into a managed investment.

Finding a managed investment to suit you

With literally hundreds of managed investments to choose from, it shouldn't be difficult to find one that suits you. You can choose to invest in a fund which focuses on a particular sector, such as retail properties; or in a multi-sector fund, which invests in all the main asset classes, including property. A financial planner can help you choose a fund which matches your risk profile and investment objectives. IFSA's *Six easy steps* can help you find a financial planner with whom you feel comfortable.

Types of property funds

You may have heard about Listed Property Trusts (LPTs). These funds allow investors to purchase an interest in a professionally managed portfolio of real estate, and are listed on the Australian Stock Exchange.

There are different types of LPTs including:

- > Industrial - invest in factories, for example
- > Office - invest in office buildings or parks
- > Hotels - invest in major hotels
- > Retail - invest in large shopping centres
- > Diversified - invest across all of the above

Property funds invest in LPTs. These funds would normally be fully invested in property securities, and may hold a portion of their investments in cash, to meet expected liquidity requirements.

How diversified are you?

Many investors are over exposed to the residential property sector through the family home and investment properties. On average, the family home represents 69% of investments (excluding super) for Australian households.

Source: National Centre for Social and Economic Modelling