Using the indirect market to access the more expensive areas of the direct UK property market

This case study demonstrates how DTZ Investors was able to arbitrage between the direct and indirect UK property market in order to maximise returns for our clients.

For clients who are of sufficient scale, we typically advocate investing in the traditional sectors of the UK property market (retail, office and industrial) directly. However, where we see opportunities to invest cost-effectively in the indirect market in these sub-sectors, we believe that these should be considered and, where appropriate, pursued in order to ensure that clients are able to take advantage of all the opportunities available in the marketplace to them.

Like many other investment houses, DTZ Investors has been increasing its exposure to the industrial sector in recent years. During this time, sentiment towards the industrial sector has grown and yields have continued to compress. This has meant that it has become increasingly difficult to find good value in the sector whilst sourcing the right stock for our clients.

In 2017, based on transactional evidence in the direct market, we identified that the industrial sector would continue to perform strongly in the near term as valuers reflected recent deals occurring in the direct market in fund valuations.

At the same time, during our ongoing analysis of the unlisted real estate funds market, we determined that secondary market pricing for a specialist industrial fund offered better value than that which we could secure in the direct market at that point in time for a particular client looking to increase their exposure to the sector.

Our client's preference is to invest in the industrial sector directly but given the compelling rationale, we decided to pursue a short term strategy and acquire units in the specialist industrial fund on the secondary market: units were secured promptly at a premium to the fund's net asset value but below the cost of direct investment.

Following this investment, in 2018, DTZ Investors was able to successfully secure the freehold interest in a multi-let industrial estate in the South East for the client, achieving its targeted industrial exposure directly. In light of this, the rationale for holding this specialist fund investment no longer existed and the holding was disposed of on the secondary market at a similar premium to that which was paid in order to secure exposure the previous year.

Our holistic approach meant that we could be patient whilst securing the right direct product for our client, ensuring that we do not deviate from our proven investment strategy which has been fine-tuned over the past 50 years. This was achieved whilst crystallising strong short term returns for our client, ensuring that they did not forgo the strong performance of the industrial sector in the meantime. This was also achieved at minimal transactional cost.

Over the holding period, **the client's investment delivered a net return of over 9% during the five month period of ownership**, which compares favourably with the IPD Monthly Digest figure as reported by MSCI of c. 3% for All Property and c. 7% for the Industrial sector over the same period.

Although DTZ Investors has a number of clients who invest in the indirect market over the longer term, our bespoke approach to investing means that each of our client's portfolios are structured to suit their specific investment objectives, time horizons, liquidity preferences and risk parameters and we continually asses all of the opportunities available to ensure that we deliver the best risk-adjusted returns for them.

DTZ Investors is a specialist European real estate fund manager, part of the Cushman & Wakefield Group. The business was established in 1968 in the UK and expanded into Continental Europe in 1999. DTZ Investors has been investing indirectly for over 20 years and has secured 15 independent performance awards from MSCI/IPD in the last 17 years.

DTZ Investors employs patience and discipline when sourcing direct property assets ensuring that we do not deviate from our proven investment strategy which has been fine-tuned over the past 50 years.

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Important information

Past performance is not a guide to the future. The value of investments can go down as well as up. Investments in small and emerging markets can be more volatile than other overseas markets. For funds that invest in overseas markets, the return may increase or decrease as a result of currency fluctuations.

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Where funds are invested in property, investors may not be able to realize their investment when they want. Whilst property valuation is conducted by an independent expert, any such opinion is a matter of the valuer's opinion. Property is a specialist sector which may be less liquid and produce more volatile performance than an investment in broader investment sectors .

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