Real estate funds

Real estate funds typically buy investment properties such as apartment blocks or commercial premises. They offer diversification benefits thanks to their low correlation to bonds and shares. The downside is poor liquidity, which may limit the scope for redeeming units of real estate funds.

Real estate investments
What are real estate investments?
Investments in real estate can be made directly or indirectly. Real estate comprises office buildings, retail and industrial premises, residential property and special real estate (such as hotels or hospitals). The variables that determine the value of a property are its location and facilities and the variety of ways in which it can be used. Direct investments involve buying properties directly rather than investing via a securities dealer.
Indirect investments generally require a lower capital outlay than direct investments and can be listed on an exchange or unlisted. Examples of unlisted indirect investments include real estate funds, shares of real estate companies that are not traded on an exchange and certificates on real estate funds. Real estate funds can reduce risks by diversifying across geographical areas and real estate categories. Listed indirect investments include real estate investment trusts (REITs), which make it possible to invest in real estate without incurring certain disadvantages, such as illiquidity.

What risks are associated with real estate investments?
Anyone investing indirectly in real estate must consider the risks attached to the financial instrument in question. There are traditional, strictly regulated funds that invest in real estate, but indirect real estate investments can also have similar characteristics to hedge funds or private equity and thus entail higher risks. Ultimately, physical assets – buildings and land – underlie all real estate investments. Each of these assets is unique, so there is no regulated trading.
Property markets are also frequently intransparent and require precise knowledge of local circumstances. It is thus essential to involve local experts, which makes market access more difficult.

Real estate sometimes reacts to interest rate changes in a similar way to bonds: when interest rates are low, for instance, mortgages are cheap, and it is easy to generate above-average returns. Conversely, high interest rates depress returns. Government tax incentives intended to promote home ownership and attractive lending conditions can also lead to excessively high prices.

DISCLAIMER

This information sheet contains an extract from the brochure “Risks Involved in Trading Financial Instruments” published by the Swiss Bankers Association (SBA), the complete version of which can be consulted at www.swissbanking.org or on the Bank’s website (www.corner.ch).

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Before making any investment decision, we invite you to consult a financial advisor and to examine carefully all documents and information available for each financial instrument (prospectus, basic information sheet, term sheet, etc.).