

Withdrawal Restrictions Still in the Cards for UK Property Funds in 2023



In a move that's certain to have investors on edge, several large UK property funds, including M&G and BlackRock UK, have once again deferred redemptions – meaning that investors are going to have to wait for payouts.

According to Financial News London (FNL), the new round of deferrals follows restrictions introduced in 2022, when both property funds pushed out redemptions to help manage liquidity amid high demand. As FNL highlights: “Selling real estate and other illiquid assets can be time-consuming, and redemption delays can help property funds avoid fire sales of assets.”

Other UK funds following suit included Schroders' UK Real Estate Fund which originally stated they would: “defer most of the £65m in redemptions due to be paid out in October [2022] to as far out as July 2023.”

According to the FNL report, however, the fund announced on the 5th of January that they'd since fulfilled those redemptions. What's still uncertain is how they'll be dealing with newer requests that have come in since then.

Ongoing Trends

This isn't the first time in recent years that we're seeing waves in UK property funds. As the Financial Times Adviser pointed out back in 2016, many funds struggled in the wake of Brexit, with a spate of suspended redemptions occurring as investors tried to cash in.

At the time M&G stated that: “Investor redemptions in the fund have risen markedly because of the high levels of uncertainty in the UK commercial property market since the outcome of the European Union referendum.”

M&G added that, to protect investors, it would seek a “temporary suspension in trading”, once again to ensure assets were being sold off “at reasonable values”.

Withdrawal Restrictions Still in the Cards for UK Property Funds in 2023

Long-Term Horizons

While the lack of liquidity can raise alarm bells for investors trying to shift their capital, worth noting is that deferring withdrawals is a built-in strategy for managing property funds. In a recent interview, US-based Blackstone COO Jon Gray, responding to investor concerns about limits placed on the Blackstone Real Estate Income Trust (BREIT), put it like this:

“We set up the product with limitations on liquidity... We described it as semi-liquid because we knew at some point there would be a period of volatility, and we didn’t want to sell assets at the wrong time under pressure.”

Gray added that investors knew that there were limits on redemption, but that the upshot is that investors are “[benefiting] from a fund that has delivered 13% compounded returns for six years in a challenging environment.”

Investing in the Future

Though it’s difficult to predict the long-term effects the current rough patch will have on UK and US property and property funds, for savvy real estate investors there are likely to be many interesting opportunities in the coming months.

As commercial real estate (CRE) professionals, finding those opportunities, and making the best of them, remains a matter of focusing on fundamentals and paying careful attention to how the market responds as we move through the first half of 2023.

