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BIZ INSIGHT

Opportunities grow in European realty market

SPECIAL TO THENATION

DESPITE VOLATLITY since the beginning of the year, the European stock market has continued to be an attractive choice for investors. The combination of TLTRO – restructuring of the banking sector following the stress tests, and the introduction of asset purchase programme, has not only pushed up the credit growth for non-financial companies, but has further eased the financial condition and driving up money supply.

What is more interesting is that the ECB QE has also supported the valuation of European property market.

The European property market is in the cycle of yield expansion, in contrast to the Japanese and the Singaporean markets. The impact of QE continues to support the pricing of properties. The low interest rate environment has driven government bonds to century- lows and there is a large property yield gap to support pricing. The properties owned by listed companies in Europe tend to provide pleasing rental yield. For example, in the UK, Germany, and Spain, the property yield rates were 2.955 per cent, 3.654 per cent, and 2.958 per cent, respectively. All of these return rates are higher than those of their government bonds. The yield gap between European governments' bonds and properties thus suggests that the European property market is poised for much more growth. This is not to mention the ECB's signal of launching more QE tools to constantly boost the economy, which would result in the property market receiving a boost to outperform. Analysts suggest the property markets in Europe from 2016-2018 will see annual yield of 7 per cent. For the UK, especially, property yield could rise up as much as 10 per cent or higher.

In addition, the property market in Euro Zone tends to grow in accordance with the expansion of the European economy. Property demand, for both purchases and rentals, has significantly increased while at the same time, vacancy rate has declined. Considering that demand for property rental exceeds supply, and not to mention that it is not easy to have new property in main European cities, rental yield should be in a strong position to increase, especially those in prime areas. Furthermore, investing in European property is a great choice for investors who seek to diversify his/her portfolio in the midst of market volatility. The property yield is likely to be more attractive and less fluctuated than investing in stocks. Moreover, the European property market has been praised for its transparency.

Investors, nowadays, are exposed to a variety of ways to invest in European property. Whereas direct investment allows investors to enjoy total ownership of the property, it requires great amount of capital and liquidity is relatively low. An attractive way for many investors, thus, is to invest in the real estate investment trust (REITs). REITs allow investors to invest in the same way as investing in property stocks, but with better liquidity. For those who are looking to generate returns on the growing European market, but lack the time to monitor market conditions, seeking the advice of a professionally managed European property mutual funds is highly recommended.

Investment contains risk. Investors should thoroughly study prospectuses, product features, return conditions and risk before investing.

Contributed by Asset Plus Fund management