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UK watchdog puts property funds on daily watch as outflows surge

Retail investors withdraw £315m in December as Brexit uncertainty sparks fears of liquidity crunch

Investors have been withdrawing money from property funds in anticipation of a potential hard Brexit in March © AP

Judith Evans and **Kate Beioley** in London 5 HOURS AGO 51

The UK financial watchdog has asked for daily updates from property funds after anxious investors withdrew hundreds of millions of pounds amid Brexit uncertainty, stoking fears of another liquidity crunch.

Retail investors withdrew £315m from property funds in December, according to Morningstar. The size of the withdrawals is comparable to the volumes of redemptions in each of the two months following the 2016 Brexit vote, which prompted funds to suspend trading, trapping investors' money.

The Financial Conduct Authority stepped up its monitoring of outflows from funds available to individual investors to a daily basis late last year, according to three people briefed on the situation.

"The FCA has learnt its lesson from 2016," said David Wise, co-manager of the Kames Property Income fund. "It is carefully watching flows in and out of the big funds." He added that there had been big outflows from funds in December, coinciding with the big fall in stock markets.

“January was calmer but we certainly had hundreds of millions heading out of the door of our competitors in December. It is manageable but does mean they need to sell assets,” Mr Wise said.

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The “gating” of the funds in 2016 was among the most high-profile market reactions to the referendum. It stemmed from the fact that the funds normally offer daily trading to investors even though the properties they hold can take months to sell.

Adrian Benedict, investment director for real estate at Fidelity International, said: “With the no-deal Brexit deadline looming fast, any regulator is going to be thinking about ‘What was the last section of the economy that was most exposed?’ The fact that they had outflows in the back end of last year was a signal to the regulator to monitor it.”

He said there were also concerns about the funds’ holdings of retail properties amid a crisis in the retail sector.

Mr Benedict added: “We’re starting to see valuers correcting the valuations of retail assets within portfolios, and we’re only part way through that journey . . . you’ve got a situation where values are falling, a heightened anxiety around uncertainty.”

The FCA said: “As you would expect, we regularly monitor markets and funds. We are also in frequent contact with firms and continue to engage with them on a wide range of issues.”

The funds including a £3.7bn one run by M&G, a £3.3bn L&G fund and a £2.8bn Janus Henderson fund — have been better able to cope with outflows than in 2016 because they have maintained large holdings of cash and shares, which they can sell rapidly when investors redeem large sums.

However, the volume of redemption requests, together with a weak market for retail properties, mean the funds have recently been forced to sell assets in higher demand, such as office buildings and industrials, according to Mr Wise.

He said he had seen "all sorts" for sale including London office buildings and supermarkets. "Generally in stressed conditions funds have to sell some of their — not quite crown jewels — but their better assets because it's the only thing the market wants to buy."

Gloom on Britain's high streets has resulted in sliding retail property values since the Brexit vote. Last year values fell 7.4 per cent. Overall commercial property values — including office buildings and warehouses — fell 2.4 per cent in 2016 before rebounding the following year, according to a CBRE monthly index. The sector experienced anaemic growth in 2018, however, and slipped back into negative territory in November and December.

One person briefed on the situation said the FCA's increased scrutiny began about the time that Theresa May, the prime minister, cancelled a parliamentary vote on her Brexit deal in December. Parliament's rejection of the deal last month heightened worries that the UK might crash out of the EU without a deal in March, potentially causing a sharp economic shock.

The vote in June 2016 to leave the EU prompted investors to withdraw £466m from property funds that month and another £328m in July, according to Morningstar figures. The redemptions forced seven large property funds to suspend trading, most for a period of months.

Since then the FCA has indicated it was happy with the funds' decisions to "gate", which prevented large numbers of fire sales from triggering a downward spiral in property prices, as in the 2008 financial crisis.

In a January review of the investment management market, it said the management of liquidity "was successful and resulted in no material consumer detriment".

The regulator has proposed forcing property funds to halt trading if there is uncertainty about the value of 20 per cent of their portfolios. It will hand down new rules for the sector this year to protect investors in the event of another sell-off.