



# Taking income higher with **REAL ESTATE**

**The ability of real estate to generate a high and dependable income and withstand economic volatility continues to make it an important element of many investors' portfolios, says Andrew Allen, Global Head of Investment Research (Real Estate), at Aberdeen Standard Investments – provided you choose assets carefully.**

**M**any of us are inclined towards real estate investing because the asset class is a familiar feature in our daily lives. The way we shop, receive goods, work and enjoy leisure time all support the underlying real estate economy.

Investing in real estate tends to produce a relatively high and dependable income stream. Over time, investors can typically expect around 75% of the return from real estate to come from the rental income paid by tenants. The remainder comes from the potential growth in value of the real estate assets. This could be through improvements made to the assets, or market value appreciation, or both.

If the tenants sign leases that extend for many years, a portfolio of diversified real estate assets can offer highly predictable income. Moreover, it should be able to withstand short-term economic volatility. For this reason, investors typically use real estate to help diversify their portfolio, with risk-reward characteristics that lie somewhere between equities and fixed-income investments.

## **Demand for income strategies**

In recent years, there has generally been growing interest in income-oriented investments. Fixed-income investments, such as UK government gilts and investment-grade corporate bonds, are considered a comparatively low-risk source of

income. However, with interest rates at persistently subdued levels, they currently offer only modest returns. By comparison, real estate can provide both higher income and more secure strategies. As a result, we see many investors keenly seeking income-oriented real estate strategies.

It also is notable to see the high regard investors place on real estate assets with long-term secured leases. In some parts of the market, tenants are demanding more flexible and variable lease terms. However, this is not universally the case and strategies can easily be set that target dependable income.

## **Focus on quality**

The four main sectors of the UK real estate market are the Retail sector, the Logistics sector, the Office sector and Alternatives which includes student housing, budget hotels, data centres, pubs and leisure premises. In short, the UK real estate market – like the global market – is undergoing some important shifts as shopping, working, living and leisure patterns change. Finding the real estate assets that are going to thrive in this shifting market demands an active focus on quality – be it the quality of buildings, location or tenants. But the appeal of quality real estate assets as a potential source of reliable income and portfolio diversification remains as strong as ever. ■



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Andrew is Global Head of Investment Research at Aberdeen Standard Investments, and is also a member of the Real Estate Investment Management Committee. Andrew manages a team of analysts located in the US, Singapore, Norway, Germany and the UK. He is primarily responsible for the creation and dissemination of real estate investment research. Andrew joined Aberdeen Asset Management in 2011 from Oriel Securities (now Stifel) where he was a partner and analyst in the real estate securities team.

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