

Pension funds urged to use caution over property



Global Pensions

9th June, 2011 – by Chris Panteli

EUROPE - Pension funds considering a move into the European property market should act with caution, Hatfield Philips International (HPI) has warned.

HPI, said with parts of the commercial property market seeing a recovery, and those lenders who were active during the boom now constrained, or no longer in business, many pension funds have been increasingly significant investors in this sector.

However, the firm, which manages £35bn worth of commercial property loans across Europe and is the continent's largest independent primary and special servicer, said its underwriting and monitoring team is advising pension funds not to repeat the same mistakes that the banks and securitization market made, which contributed to the global property crash.

HPI said in order to help prevent a similar event happening, regulators and the markets have, effectively, constrained the amount of credit available for investing and ensured that investment is more prudent.

However, pension funds do not have the same constraints and capital rules as those financial institutions covered by bailouts, Basel III or Solvency II. Therefore, Hatfield Philips is urging pension funds to ensure they carry out full due diligence on property investments.

HPI director Stewart Hotston said: "Whilst investment from institutional investors, such as pension funds, is very good for the liquidity of the commercial real estate market, it is important that they apply a degree of caution so as not to risk history repeating itself, albeit with different actors. The capital rules, which institutional investors such as pension funds work with, are completely different and thus they can treat debt differently when compared with traditional lenders.

"However, if we've learnt one thing from the last five years it's that many of the assumptions about assessing value and probability of default taught in text books are painfully wrong and new entrants are well advised to take nothing for granted."

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