

A guide to diversification in property investments

Blog

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What property types can you invest in?

The UK property market offers a range of opportunities for investors to diversify. Each type of property has its own characteristics and potential advantages:

- **Residential buy-to-let:** Purchasing residential properties to rent out can provide a regular income stream, and investors may benefit from capital appreciation over time.
- **Commercial property:** This includes offices, shops, and industrial units, which tend to yield higher returns compared to residential properties. Commercial leases are often longer, providing stability in income.

- **Student accommodation:** With consistent demand in university towns, investing in student housing, whether purpose-built or standard residential properties, can offer dependable returns.
- **Holiday lets:** Located in tourist destinations, these properties are rented out short-term, often commanding higher nightly rates, particularly during peak seasons. For a deeper dive into the short-term let market, check out our latest TAB U podcast episode: [Airbnb and Beyond: Unravelling short-term lets](#).
- **HMO (House of multiple occupation):** Renting a property to multiple tenants, each with their own room, can significantly increase rental yield, especially in areas with high demand for affordable housing.
- **Development projects:** Buying land or properties for development offers the potential for significant profit, though it requires a strong understanding of market trends and local regulations.
- **REITs (Real Estate Investment Trusts):** These funds allow investors to gain exposure to the property market without owning real estate directly, often providing dividends, typically on a quarterly or annual basis, depending on the specific REIT.
- **Fractional ownership:** This involves owning a share of a larger property, making it easier for smaller investors to enter the market.
- **Serviced apartments:** These fully furnished apartments offer hotel-like services, catering primarily to business travellers and short-term tenants, generating consistent rental income.
- **Retirement homes:** With the ageing population, retirement properties are in increasing demand, offering potential stability in returns.
- **Mixed-use property:** Combining residential and commercial units can diversify income streams, helping to balance potential risks across sectors.

While many types of properties can generate income, it's essential to be aware of additional challenges investors may face. These can include:

- **Market fluctuations:** Property values can fluctuate based on economic conditions, interest rates, and market demand, which may affect the potential return on investment.
- **Liquidity:** Property is a relatively illiquid asset, meaning it can take time to sell and convert into cash, especially during downturns in the market.

- **Maintenance and upkeep:** Properties require ongoing maintenance, and unexpected repairs can impact returns, particularly in older buildings or those in need of significant work.
- **Interest rate changes:** Interest rates can fluctuate and if they rise can increase borrowing costs, affecting profitability for those with mortgages or loans.
- **Tenant risk:** For buy-to-let investments, there is the risk of tenants not paying rent or the property being left vacant, both of which can affect income generation.
- **Regulatory changes:** Changes in local or national policies, such as tax increases, changes to rental laws, or new zoning regulations, can impact property values and investment returns.
- **Location risk:** Properties in less desirable areas may not appreciate in value as expected and could be harder to rent or sell.
- **Void periods:** Properties sitting vacant for extended periods, impacting potential income.
- **Development uncertainties:** Unforeseen issues with property development can delay projects and incur additional costs.
- **Construction costs:** Rising costs of construction or materials can impact project budgets and timelines.

How have commercial and residential properties performed?

According to a November report from [RICs](#), the commercial property market has had a mixed year, with some positive signs but also ongoing challenges. While buying activity has remained relatively low, retail properties have seen a rebound, with an increase in sales. However, the recent rise in bond yields could slow the market's recovery. On a positive note, prime properties, especially office spaces, continue to see strong demand, with businesses increasingly seeking high-quality, sustainable spaces. This reflects a clear difference in performance between prime and secondary assets.

Residential property performance has varied by sector this year. The UK property market has seen modest growth. [Savills](#) forecasts house prices increasing and market activity slowly returning to pre-pandemic levels. Rental growth remains steady but is being held back by affordability concerns, particularly in London. Moving forward, house prices are expected to grow at a moderate pace, with regional markets in the Midlands and North likely to perform better than London due to ongoing affordability challenges.

Key insights on future performance

Several commercial property sectors are expected to perform differently over the next 20 years:

- **Industrial units and logistics hubs:** With the rise of e-commerce and increasing demand for logistics infrastructure, these sectors are poised for strong growth.
- **Data centres:** As cloud computing and data consumption continue to grow, data centres are likely to experience significant demand, making them a potential area for high returns.
- **Retail and office spaces:** Both sectors face challenges due to the rise of online shopping and remote working. However, the office space market may adapt by embracing innovative designs and hybrid work solutions. Recent reports suggest that large firms like Amazon and Tesco are requiring employees to return to the office full-time, signalling a potential shift back to in-person work for some industries. This move could stimulate demand for office spaces, particularly those that offer flexible, modern work environments tailored to new working patterns.
- **Healthcare facilities:** As the population ages, demand for healthcare services is expected to grow, providing stability in this sector.

Several factors are expected to shape the future performance of the residential market:

- **Modest house price growth:** House prices are forecasted to rise moderately over the next few years, with regional variations.
- **Regional performance differences:** The Midlands and North are expected to see stronger growth compared to London due to ongoing affordability challenges.
- **Market activity slowly returning to pre-pandemic levels:** While market activity remains below pre-pandemic levels, it is gradually recovering.
- **Rental growth pressure:** Rental growth is expected to slow due to affordability constraints, particularly in high-demand areas like London.

What trends affect property investments?

Several trends shape the property market and can influence the success of investments:

- **Supply and demand:** When demand outstrips supply, property prices tend to rise. Conversely, an oversupply may cause prices to fall. This balance is crucial in property investment. Currently,

there is an undersupply of affordable housing, and the government has committed to building 1.5 million new, affordable homes over the next five years. This push to increase housing stock could help ease pressure on the market, but the impact on supply and demand will depend on the pace of development and how well it addresses the growing need for affordable homes.

- **Urban development:** Improvements in transport, infrastructure, and amenities can drive property values up. Investing in areas undergoing significant urban development can lead to increased demand and higher returns.
- **Changing consumer preferences:** As consumer habits shift, so does property demand. Trends such as sustainable living or remote working can create new investment opportunities in emerging markets.
- **Economy:** The government's approach, particularly in the recent Budget, has affected property investment. The increased stamp duty surcharge on second homes and investment properties is one key measure. While the government has committed to building more affordable homes, the overall fiscal policies, including taxation and public spending, could influence investor confidence and market dynamics.

How do interest rates impact property investments?

Interest rates are a key factor influencing property investments.

- **Lower interest rates:** When interest rates are low, borrowing usually becomes more affordable, driving higher demand for property and potentially pushing prices up. In response to the post-COVID period, the cost of living crisis, and Liz Truss' mini-budget, the Bank of England raised base rates to combat inflation. However, with interest rates now beginning to decrease, property investors may be more likely to reassess opportunities in the UK market.
- **Higher interest rates:** Rising interest rates can reduce demand as borrowing becomes more expensive, which may result in price corrections.

What are the benefits of diversification?

Diversification offers several benefits for property investors:

- **Risk reduction:** Diversifying investments across different property types helps reduce the impact of any underperforming assets. For example, during the COVID-19 pandemic, demand

for residential properties with outdoor space surged, while commercial sectors faced challenges. Now, as the market recovers from the pandemic, central London rents are rising, highlighting the importance of staying attuned to shifting trends.

- **Stability:** Diversification can provide a buffer against market volatility. If one sector underperforms, others may compensate, helping maintain portfolio balance.
- **Enhanced returns:** A diversified portfolio allows investors to take advantage of growth opportunities across different markets, potentially increasing overall returns.

What risks come with diversification?

Although diversification can mitigate risk, it also presents some challenges:

- **Complexity:** Managing a diversified portfolio requires time and attention. Without careful management, diversification can lead to underperformance.
- **Economic downturns:** A significant market downturn can affect multiple sectors at once, which may result in broader portfolio underperformance.

How does location affect diversification?

Location is a critical factor in property investment success:

- **Regional demand variability:** Different areas experience varying levels of demand based on local economic conditions and amenities. Investing across multiple regions can help reduce exposure to location-specific downturns.
- **Growth potential:** Certain regions, particularly those experiencing urban development, may offer higher growth potential. By diversifying across locations, investors can tap into different markets while spreading risk.

Diversification is a crucial strategy for property investors looking to create stable, resilient portfolios. With a wide variety of property types available in the UK, from residential and commercial to specialised sectors like healthcare and data centres, investors have numerous opportunities to spread their investments and potentially enhance their returns.

How can you diversify property investments with TAB?

Through TAB, you can invest in both debt and equity products, enabling you to diversify your investment across multiple opportunities rather than focusing on a single property. This approach allows you to spread your investment across different asset types, loan-to-value ratios (LTVs), developments, and income-generating opportunities.

For example, [TAB Property Travelodge Chigwell](#) offers steady income, with investors earning returns from a long-term tenant secured until 2035. Meanwhile, [TAB Property Leamington Spa](#) generates rental income while also presenting potential development opportunities that could enhance its value. By splitting your investments across both, you can achieve a balanced portfolio with steady income streams and growth potential.

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