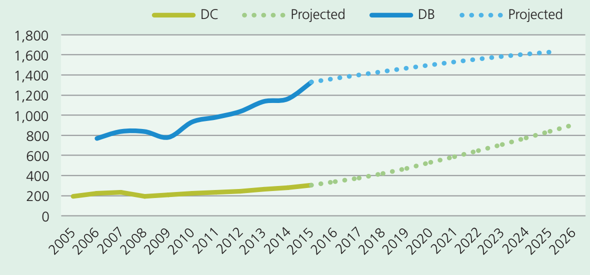
IPF Research Programme

**AT A GLANCE**
**MARCH 2018**

# REAL ESTATE INVESTMENT IN DEFINED CONTRIBUTION PENSION SCHEMES

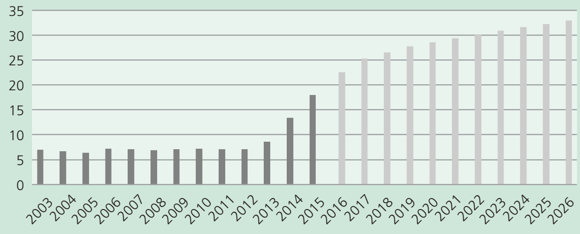
**In a changing UK savings environment, this research seeks to identify the current and future scope for property investment as more workers enrol in defined contribution pension schemes through their employers.**

## DB and DC assets (£bn)




*Source* Spence Johnson DC Market Intelligence 2016

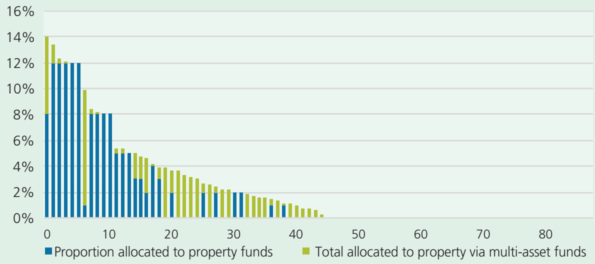
## DC memberships (m)




*Source* Spence Johnson DC Market Intelligence 2016

| | 2016 | Median scenario | 2026 |
|---|---|---|---|
| Total DC assets £bn | £338 | | £871 |
| Property popularity | 30% | | 40% |
| Property allocation | 1.8% | | 5.4% |
| Property assets £bn | £6.2 | | £47.3 |
| | | **Growth 2016-2026** | 659% |

## Allocation to property
### % of Scheme AuM




*Survey findings* (mega/large schemes only, n=89).

*Source* Spence Johnson DC Sponsor Survey 2017

## Sources of growth in property assets 2016-2026: median scenario (£bn)


*Source* Spence Johnson

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## Key Points

In total, approximately £6.2bn of property assets are held in workplace DC pensions currently, mostly in the largest schemes. The research concludes there may be up to £47bn in property investment in DC schemes by 2026; the majority of these assets will be in Master Trusts (multi-employer occupational schemes).

- Automatic enrolment – introduced in stages from 2012 – kick-started what is predicted may be a doubling in workplace membership and threefold increase in assets under management.
- It is estimated that UK DC workplace market holds £338bn in assets. The overall rate of growth of assets is forecast to be 10% per annum over the next 10 years and UK DC assets will reach just over £870bn in this period.
- Some 30% of all DC schemes are estimated to invest in real estate currently, either through property funds or via multi-asset funds. As schemes fall in size, then so does the popularity of property investment: across 'mega' and large schemes, exposure to real estate averages 51%. The proportion of DC schemes invested in property is forecast to rise to 40% over the next 10 years.
- In terms of allocation of assets to property, overall 1.8% of workplace DC assets, including those of smaller schemes, are currently assessed as being invested in property, although the researchers believe allocations will grow, both through property and multi-asset funds. Overall, this may increase to 5.4% in total by 2026, representing around £47.3bn of real estate assets.
- Other scenarios for the growth of property investment in UK DC in the next 10 years include a worst case, where property investment is 85% lower than this projection (or c. £8.5bn) and a best case, where it is 50% higher (c.£74.5bn).
- Most schemes surveyed want to achieve diversification from property investment (often expressed as risk diversification or non-correlated return), followed by a desire to invest for the long-term.
- Virtually all exposure to real estate in DC is currently achieved through investment in funds; the research has uncovered little 'direct' property holding.
- The main reason why DC schemes will not invest in property, or will not increase their investment, is the lack of liquidity although it is clear that the barriers to illiquid investments are structural, not regulatory.

The full report may be downloaded from the IPF website: **www.ipf.org.uk**.

**The 2015-2018 Research Programme is sponsored by:**