Investing in unlisted property schemes?

Independent guide for investors about unlisted property schemes

This guide is for you, whether you're an experienced investor or just starting out.

ASIC

Australian Securities & Investments Commission

About ASIC

The Australian Securities and Investments Commission (ASIC) is Australia's corporate, markets and financial services regulator. One of our roles is to promote confident and informed participation by investors and consumers in the financial system.

MoneySmart is ASIC's website for consumers and investors to help you make the most of your money. It has calculators and tips to give you fast answers to your money questions.

Visit www.moneysmart.gov.au or call ASIC on 1300 300 630.

How can this guide help you?

Read the Product Disclosure Statement (PDS) and any other disclosure documents together with this guide. ASIC does not endorse specific investments. However, this independent guide can help you:

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1. Anything you put your money into should meet your goals and suit you.
2. No one can guarantee the performance of any investment. You might lose some or all of your money if something goes wrong.
3. The rate of return is not the only way to assess how risky an investment is.
4. 'High return means high risk' is a familiar rule of thumb. Some investments, even if they seem to offer relatively modest returns, can be extremely risky.
5. Take your time and do your research before deciding what to invest in. Visit ASIC's website for investors, MoneySmart, at www.moneysmart.gov.au for more information.
6. You are taking a big risk if you put all your money into one investment. Spreading your money between different investment types ('diversification') reduces the risk of losing everything.
7. Consider seeking professional advice from a licensed financial adviser.

Know what the investment is

What is a 'property scheme'?

In a property scheme, you buy 'units' in an investment operated by a professional investment manager. Other investors also buy units in the property scheme.

The property scheme's money is invested in property assets. Your money usually stays in the property scheme until it ends, when the properties are sold and the net proceeds are distributed to investors. Some property schemes allow you to withdraw early (the investment manager buys back your units, usually at their value at that time: see page 30). If the scheme is listed, you may be able to sell your units on the public market.

The investment manager selects and buys investment properties and is responsible for all maintenance, administration, rental collection and improvements to the properties. The investment properties can be commercial, retail, industrial or other property sector assets. The investment manager may also buy units in other property schemes.

In return for investing your money (your 'capital'), you might get:

- regular income, usually half-yearly (called 'distributions'), and
- a 'capital gain' on your original investment if the value of the scheme's underlying investment assets has gone up when they are sold. Of course, if the value of the assets has gone down, you will have a 'capital loss'.

Some property schemes invest in property development, which means there are extra construction and development risks compared with investments in established buildings.

Property schemes can also be called 'property funds' or 'property syndicates'.

What is an 'unlisted' property scheme?

An unlisted property scheme is not listed on a public market, such as the Australian Securities Exchange (ASX).

There are differences between listed and unlisted property schemes that can make it harder for investors to easily know what's going on with their investment. For example:

- with an unlisted property scheme, you can't see the price of the investment (and whether it is going up or down) and decide to buy or sell when you want to
- unlisted property schemes are not subject to ongoing supervision by a market supervisor, such as the ASX
- it can be more difficult to get out of an unlisted property scheme any time you want
- if you are allowed to withdraw your money from an unlisted property scheme, it is usually subject to strict conditions, and
- there might be fees for taking your money out early.

What's the difference between a property scheme and other investments?

Investment	How it works
Term deposit	You deposit your money (capital) with a specially regulated financial institution such as a bank, building society or credit union for a fixed term in return for a fixed rate of interest.
Debenture	You lend your money to a business usually for a fixed term. You are not guaranteed a fixed rate of interest or return of your capital. The business might invest in mortgages and/or properties.
Mortgage scheme	You invest money in a scheme that invests in residential and commercial mortgages. You might not be able to withdraw from the scheme at short notice. You are not guaranteed a fixed rate of interest or return of your capital.
Property scheme	You invest money in a scheme that invests in property or schemes that invest in property, rather than in mortgages over property. You only get your money back when the property scheme ends or if you have a right to withdraw (see page 30). If the scheme is listed, you may able to sell your units on a public market. You are not guaranteed a return on your investment or the return of your capital.

A property scheme is not the same as a term deposit.

Why is the PDS important?

The investment manager must give you a Product Disclosure Statement (PDS). The PDS tells you how the property scheme works and you should read it in full. Under the law, the PDS must include enough detail for you to compare similar financial products so you can make an informed decision about which one to invest in.

Concentrate on the sections that:

- explain the key features and risks of the investment
- tell you about the fees you will pay for this investment, and
- give you information about certain indicators (based on ASIC's benchmarks and disclosure principles), which can help you assess the risks of unlisted property schemes (see pages 12–31).

You should find this information in the first few pages of the PDS. The investment manager must also tell you if there are any significant changes to the information in the PDS (this is called 'ongoing disclosure'). Check the property scheme's website and/or look for regular updates in the mail (if you decide to invest).

A PDS does not have to be lodged with ASIC before it can be used to raise money from investors. ASIC does not endorse the underlying investment in any way.

What are ‘investment ratings’?

An ‘investment rating’ is an opinion by a research house or company about the likely performance of an investment, or its relative performance compared to other similar investments. This is different from a ‘credit rating’, which is an opinion about a company’s ability to pay all its debts on time and in full.

An investment rating is only one factor to consider when deciding whether or not to invest in a property scheme. Not all investment ratings are the same:

- Some companies use stars to rate investments (the more stars the stronger the recommendation) and some use words like ‘recommended’.
- Some companies only assess investments using publicly available information about the investment (such as price and returns), while others do more in depth research (for example, speaking directly to investment managers).
- Some companies might receive payments from the scheme being rated.

If you don’t understand how the rating was calculated or how to use it, contact the research house or company, or discuss it with your financial adviser.

Only use ratings from companies that hold an Australian financial services licence.

Be aware that a product rating by a research house or company is not a guarantee that the product will be successful or that it is a suitable investment for the investor. A rating should also not be taken as an assurance that the product may be more suitable than other products in the market that may not have a rating.

Do you need advice?

Take your time and think things over before you invest. Get professional advice from a licensed financial adviser if you’re not sure what to do.

ASIC’s booklet *Getting advice* can help you find out how to get personal financial advice. If your financial adviser recommends that you invest in a property scheme, make sure you ask questions about this recommendation:

- How does this product fit into your overall financial plan and how will it help you achieve what you want?
- Do you understand the risks associated with this type of investment?
- Do you know exactly what the property scheme will do with your money?
- Could you explain the business model of the property scheme to a friend or colleague?

Assess the risks

The return offered on an investment is not the only way to assess how risky it is. ASIC has developed 6 benchmarks and 8 disclosure principles for unlisted property schemes to help you assess the key risks.

From 1 November 2012, the investment manager should give you information in the PDS for each of the disclosure principles. The investment manager should also tell you if the unlisted property scheme meets each benchmark. If the scheme does not meet a benchmark, the investment manager should explain why not, and disclose any risks associated with its approach, so you can decide whether you are comfortable with the explanation.

The investment manager should also update you (through ongoing disclosure) about any significant changes to the scheme that relate to the benchmarks or disclosure principles.

The benchmarks and disclosure principles can help you:

- make up your mind about whether you're comfortable with the investment, and
- compare risks between different unlisted property schemes.

If the investment manager doesn't include some or all of the benchmark and disclosure principle information in the PDS, you might be missing out on important information for your decision.

Here's how you can use ASIC's benchmarks and disclosure principles to assess the risks in unlisted property schemes.

Look for information for each benchmark and disclosure principle in the PDS and/or ongoing disclosure documents.

See if the investment manager has included all the information required for each benchmark and disclosure principle.

Weigh up all the risk factors in the disclosed information. Are you willing to invest your money in this property scheme?

Remember

The benchmarks and disclosure principles are not a guarantee that an unlisted property scheme will perform well. Even if information for all benchmarks and disclosure principles is in the PDS, you could still lose some or all of your money if things go wrong. The benchmarks and disclosure principles are simply designed to help you understand the risks and decide whether or not to invest your money.

It is important that you fully understand the key risks associated with investing in an unlisted property scheme if you are considering such an investment.

ASIC's benchmarks and disclosure principles for unlisted property schemes

The PDS* should tell you whether or not the property scheme meets each benchmark. If the benchmark is not met, the investment manager should explain why not and how the risk is dealt with in another way.

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* These benchmarks and disclosure principles apply to unlisted property schemes from 1 November 2012. For more information see ASIC's Regulatory Guide 46 *Unlisted property schemes: Improving disclosure for retail investors* (RG 46).

The investment manager should also disclose particular information about itself and the property scheme, as outlined in the disclosure principles.

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Each benchmark and disclosure principle is explained in more detail in the following pages.

Benchmark 1: Gearing policy

Does the investment manager maintain and comply with a written policy on gearing at an individual credit facility level?

'Gearing' describes the level of a scheme's debts compared with its assets.

The investment manager should tell you whether it has a written policy to monitor and manage the level of gearing at an individual credit facility level (that is, for each loan it has) and whether it is complying with its policy.

This is because disclosure of an overall gearing ratio (see page 22) may not adequately highlight the risks associated with different credit facilities within the scheme.

If the investment manager does not meet this benchmark, it should explain why not and tell you about the associated risks.

Benchmark 2: Interest cover policy

Does the investment manager maintain and comply with a written policy on interest cover at an individual credit facility level?

Interest cover means how comfortably a scheme's income before interest and tax (its earnings) covers any interest it pays on loans.

The investment manager should tell you whether it has a written policy to monitor and manage interest cover at an individual credit facility level and whether it is complying with its policy.

This is because disclosure of an overall interest cover ratio (see page 24) may not adequately highlight the risks associated with different credit facilities within the scheme.

If the investment manager does not meet this benchmark, it should explain why not and tell you about the associated risks.

What's at stake for you?

Whether a property scheme can pay any interest it owes is an important measure of its financial wellbeing. A scheme will have other expenses as well as interest and should have a reasonable buffer between earnings and interest payments.

If a property scheme doesn't have enough earnings to meet its interest repayments, it might have to sell properties to repay loans (or risk the lender taking the properties).

In this case, the property scheme might not be able to pay distributions to investors. It might even have to stop operating and you could lose all or part of your capital.

An example using personal finance

If all your income was going towards paying off the mortgage on your home, you might worry about whether you could repay the loan in the long term (and have enough to live on at the same time).

For example, you might have disposable income of $2,000 each month and pay $500 interest each month on your mortgage. This means you have 4 times interest cover, or your interest cover is 4 ($2,000 ÷ $500 = 4).

If interest rates go up and you pay $1,200 interest each month, you have only 1.7 times interest cover and you are more financially stretched. If you pay $2,000 interest each month and your disposable income is still $2,000, you would have 1 times interest cover. This means you would have no money to do anything apart from paying the interest on your loan.

Benchmark 3: Interest capitalisation

Is the interest expense of the scheme capitalised?

When a scheme capitalises interest, it generally means that the scheme does not pay interest during the term of a loan. Instead interest is added to the loan principal. The scheme then pays the interest and capital in one payment at the end of the loan.

The investment manager should tell you whether the interest expense of the scheme is capitalised or not. If the interest expense is capitalised, the investment manager should explain:

- the risks associated with capitalisation of interest, and
- how it intends to meet its repayment obligations for any borrowing.

What's at stake for you?

If interest is capitalised, it is important that you understand how the scheme will meet its obligations to pay interest and capital and the risks associated with these arrangements.

Depending on how much money it borrows, and the length of time the interest is capitalised, the scheme could have to pay a lot of extra interest on the loan. The scheme should have adequate arrangements in place to generate the revenue and cash flow it needs to meet the higher loan payment and capitalised interest.

An example using personal finance

Your local council has approved your plan to subdivide your block of land. You plan to build a self-contained unit at the back of the block and rent it out. To help free up money to cover the costs of building the unit, you arrange with the bank to add the interest on your loan to the loan principal. This means you will pay more interest over the life of the loan (because you're paying interest on the interest) and you'll have to pay a larger total amount when the loan is due. But by then, you hope to have the income from renting out the unit.

Benchmark 4: Valuation policy

Does the investment manager maintain and comply with a written valuation policy?

Knowing what a scheme's assets are worth can help you assess its financial position. To work out how reliable these valuations are likely to be, you need to know the investment manager's policy on valuations and how they are done.

The investment manager should have a written valuation policy on how it values scheme assets. The valuation policy should ensure that valuations are done on a timely basis and by suitably qualified experts.

The investment manager should give you a summary of its valuation policy, tell you whether it complies with its policy, and where you can get a copy of the full valuation policy.

If the investment manager does not meet this benchmark, it should explain why not and tell you about the associated risks.

When the investment manager gives the value of a development property on as 'as if complete' basis, it should also give you the 'as is' valuation: see the table below. The investment manager should describe any risk that assumptions on which 'as if complete' valuations are based may prove to be inaccurate.

Type of asset	Basis for valuation
Property development	'As is' basis and 'as if complete' basis
Other property (e.g. established buildings)	'As is' basis

What's at stake for you?

Without information about how valuations are done, it will be more difficult for you to assess a scheme's financial position.

The value of scheme assets can go up and down, particularly when credit is hard to get and the value of property has fallen (because, for example, there are more properties for sale). Look carefully at how the scheme keeps track of the value of its assets and think about how reliable the valuations are likely to be.

Some key points you should consider are:

- how often valuations are done for direct investments in real property (including how often they're done by an independent valuer)
- if independent valuations are not regularly obtained, the reason why not
- whether valuations are done to industry standards, and
- how the property is being valued and the risks associated with 'as if complete' basis valuations of development property.

An example using personal finance

If you own a house, you know that putting a value on it before it's sold is not an exact science—you can only estimate what you think your house might be worth at any point in time. These estimates might vary depending on who is doing the valuation. The valuation would be even more difficult to do before the house is built.

Benchmark 5: Related party transactions

Does the investment manager maintain and comply with a written policy on related party transactions?

A 'related party transaction' is a transaction (for example, an investment, a loan or a guarantee) involving parties that have a close relationship with the investment manager.

The investment manager should have a written policy on the scheme's related party transactions and give you information about:

- whether it complies with this policy and, if not, an explanation of any associated risks
- how compliance with the policy is monitored
- what arrangements it has to manage conflicts of interests, and
- where you can get more information on the policy.

If the investment manager does not meet this benchmark, it should explain why not, the implications and risks of not meeting the benchmark, the arrangements it has for this benchmark and any risks with its approach.

What's at stake for you?

The risk with related party transactions is that they might not be made with the same rigour and independence as transactions made on an arm's length commercial basis.

There could be a greater risk of investment losses (putting your money at greater risk) if:

- the scheme has a high number of indirect investments in properties owned by related parties, and
- the processes for assessing, approving and monitoring these investments are not rigorous.

An example using personal finance

If you lend money to family members or friends, your loan terms and conditions might be very different to a bank's. You might also not expect to get your money back on time or in full. And you are less likely to sue your family or friends for repayment.

Benchmark 6: Distribution practices

Does the scheme only pay distributions from its cash from operations (excluding borrowings) available for distribution?

'Distributions' are payments you receive from the scheme during the year. These payments could come from:

- income received (for example, rental payments)
- gains from properties being revalued at a higher price (called 'unrealised revaluation gains'), which allow the scheme to borrow more
- money from new investors joining the scheme or from your own original investment in the scheme (your capital), and
- other sources such as borrowing or other support facilities.

To meet this benchmark, the scheme should only pay distributions from its cash operations.

If the investment manager does not meet this benchmark, it should tell you about any risks associated with payment of distributions from sources other than cash from operations (excluding borrowings) available for distribution.

What's at stake for you?

Distributions from any scheme are not guaranteed. But distributions from sources other than income received are more likely to be unsustainable. This may affect your capital return (that is, the return you get on any money you have invested with the scheme). This is important if you are depending on distributions from the scheme for regular income.

Disclosure Principle 1: Gearing ratio

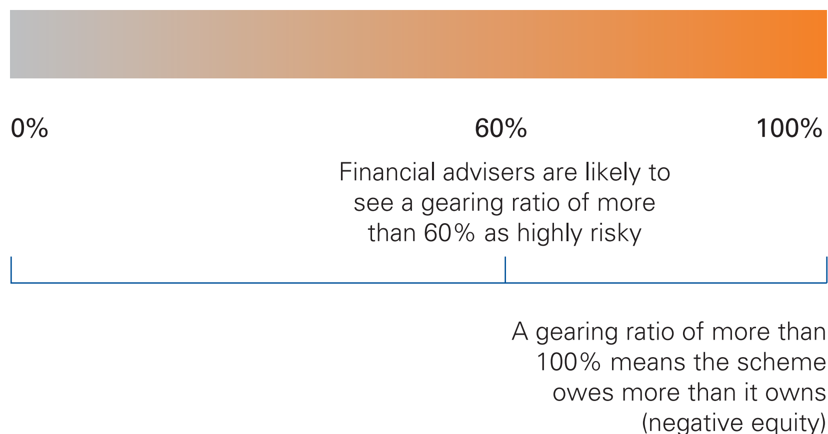
To what extent are the scheme's assets funded by debts?

The gearing ratio can help you work out how risky an investment is. It shows you what a scheme owes (its debts or 'liabilities'—primarily borrowings) as a proportion of what it owns (its assets). Here's how the gearing ratio is calculated.

$$\text{Gearing ratio} = \frac{\text{Total interest bearing liabilities}}{\text{Total assets}}$$

The investment manager should tell you the scheme's gearing ratio. This ratio is sometimes shown as a percentage. For example, a gearing ratio of 100% (or 1) would mean that a scheme's assets just cover its debts (with nothing left over).

The following scale gives you an idea of what to look for.



The lower the gearing ratio, the less risk there is. A higher gearing ratio is an indication of risk, but this might be balanced out by other factors, such as a higher interest cover (see page 24).

What's at stake for you?

If the scheme has a high gearing ratio, how comfortable are you with this risk? Ask yourself:

- Will the scheme's rate of return compensate you for the extra risk you're taking?
- Are there other factors about the scheme that might reduce this risk?
- How does the investment manager explain the high gearing ratio?
- Are you satisfied with that explanation?

An example using personal finance

To work out your household gearing ratio, compare how much you owe with how much you own.

Your assets (for example, the value of your home, car and superannuation) might add up to $450,000. Your debts (for example, what you owe on your mortgage, car loan and credit cards) might add up to $270,000.

In this case, your gearing ratio would be 60% ($270,000 ÷ $450,000 = 0.60 or 60%).

If these amounts were reversed (you owed $450,000 and owned $270,000), your gearing ratio would be 166% ($450,000 ÷ $270,000 = 1.66 or 166%). You would have negative equity, which means you have more debts than assets. This can be extremely risky.

Disclosure Principle 2: Interest cover ratio

Can the scheme meet its interest payments from its earnings?

The investment manager should tell you the interest cover ratio of the scheme. Here's how the interest cover ratio is calculated.

$$\text{Interest cover ratio} = \frac{\text{Earnings}}{\text{Interest repayments}}$$

The following scale gives you an idea of what to look for.

Lower risk

3	The scheme has interest repayments well covered
2	The scheme can cover its interest repayments, even with interest rate rises
1	The scheme's earnings only just cover interest repayments
0	The scheme has no earnings to cover interest repayments
-1	The scheme is operating at a loss even before the interest repayments

Higher risk

The lower the interest cover ratio, the more risk there is. For example, if a scheme's earnings only just cover interest payments, it won't have enough cash flow to cover other expenses.

Disclosure Principle 3: Scheme borrowing

What are the key terms of any loan and when must the scheme's debts be repaid?

You can get a good idea of a scheme's financial status by knowing:

- how much money the scheme owes (its debts) and when these debts are due to be repaid (their 'maturity profile')
- the terms under which the scheme has borrowed money, and
- how much money the scheme can borrow compared to how much it has already borrowed (its 'undrawn credit facility').

The investment manager should tell you the following information about the scheme's borrowing.

Debts due in	What the investment manager should tell you
Less than 1 year	• Total debts due and their maturity profile • Undrawn credit facility (i.e. how much can still be borrowed) • Whether refinancing or sale of assets is likely during this period
1–5 years	• Total debts due and their maturity profile for each 12-month period • Undrawn credit facility (i.e. how much can still be borrowed)
5 years+	• Total debts due

The investment manager should also outline the key terms of any loans the scheme has and tell you if they have broken any promises made in loan agreements (called 'loan covenant breaches').

What's at stake for you?

If a scheme has debts that are due to be repaid in a relatively short timeframe, this can be a significant risk factor, especially during times when getting credit is more difficult and costly.

Unless the scheme can renew or extend the due date of its debts, it might be forced to sell assets (possibly for less than their estimated value) to repay them. It might even have to stop operating. In this case, you could lose all or part of your capital because other creditors of the scheme will be repaid before you.

Some examples using personal finance

Example 1: Maturity profile

You might have a debt that is due to be repaid in 2 years. If you pay off the original loan amount ('principal') together with the interest, your debt reduces to $0 over the 2 years.

If you choose an 'interest-only' loan, you only pay the interest part before the debt is due. You would then have to pay off all of the principal at the end of the 2 years.

If you didn't have enough money to pay off the principal at that time, refinancing your loan to extend the due date would be very important.

Example 2: Undrawn credit facility

If you have a $5,000 limit on your credit card and you have bought $1,000 worth of goods on it, your undrawn credit facility would be $4,000.

You could repay $1,000 on the due date (say, within 30 days) without paying interest or at a later date (usually within 12 months) and pay interest.

Disclosure Principle 4: Portfolio diversification

Does the scheme manage risk by spreading the money it invests between different properties?

Just as you can spread your own investments to manage risk, a scheme can manage risk by spreading the money it invests between different properties. This is called 'portfolio diversification'.

The investment manager should tell you:

- the number and value of properties by geographic location and sector (for example, industrial, commercial, retail and residential)
- the most recent valuation (for significant property assets)
- the lease expiry profile
- occupancy rates and who the major tenants are
- what non-property assets the scheme has and their value, and
- the current value of the development and/or construction assets of the scheme.

What's at stake for you?

Is the scheme's portfolio heavily concentrated on a small number of properties or a particular geographic location? The quality of the properties held and the length of the leases on those properties will affect the scheme's financial position and performance.

Generally, the less diversified a portfolio is, the greater the chance that a negative event affecting one property or one lease will put the overall portfolio (and your money) at risk.

Disclosure Principle 5: Related party transactions

How many of the scheme's transactions involve parties that have a close relationship with the investment manager?

The investment manager should tell you:

- the number and value of loans, investments and other transactions they have made with related parties
- the nature of the relationship and the arrangements, including the loan terms, remuneration and any associated risks
- whether member approval was sought, and
- how they assess, approve and monitor related party transactions.

Disclosure Principle 6: Distribution practices

Where is the money paid to you coming from and is this sustainable?

The investment manager should tell you:

- the source of the current distribution being paid to you and any forecast distributions, and
- if the distributions are not sourced solely from income received, why the distributions are being made and whether they can be maintained over the next 12 months.

Disclosure Principle 7: Withdrawing from the scheme

Can you withdraw from the scheme and how long will it take to get your money back?

Property investments are less readily 'saleable' or 'liquid' than some other investments. This could limit when and how you can withdraw from the scheme. Many property schemes do not offer withdrawal rights at all (that is, you can't take your money out before the scheme ends).

The investment manager should tell you:

- whether or not you have any withdrawal rights, and
- if you do have withdrawal rights:
    - how you can exercise these rights and any conditions on them
    - the longest period of time you might have to wait before you can get your money back, and
    - any significant risks that could stop you being able to get your money back.

What's at stake for you?

Not all property schemes have withdrawal rights. Even if you can take your money out early or at short notice, you might have to wait a while (for example, 12 months or longer) to get it back.

If too many investors want to get their money out at the same time the scheme may put a cap on the number of units you can cash out or freeze all withdrawals. Before you invest, make sure you can wait for the maximum withdrawal period to get your money back.

There's also a risk that you might not get back all the money you expect when you withdraw from a property scheme if the value of the scheme's assets falls.

Disclosure Principle 8: Net tangible assets

What is the net tangible asset value per unit of your investment in the scheme?

Knowing the net asset value per unit of a property scheme can help you understand the financial position of the scheme. Here's how a scheme's net tangible assets (NTA) is calculated.

$$\text{NTA} = \frac{\text{Net assets} - \text{intangible assets} +/- \text{any other adjustments}}{\text{Number of units in the scheme on issue}}$$

The investment manager should tell you the scheme's NTA and explain what the NTA calculation means to you.

The NTA should be calculated from the scheme's latest financial statements, which would usually be audited, except where the investment manager is aware of material changes since those financial statements were prepared.

If the investment manager has not used the formula above, it should tell you how it has calculated the scheme's NTA and explain why it has chosen a different method.

What's at stake for you?

The NTA value of an unlisted property scheme can have a significant impact on the overall return that you can expect to receive. A scheme's NTA can be affected by fees and charges, capital raising costs and other expenses, so it's important to understand what this means for your investment.

Think about your own situation and needs

Does the investment meet your goals?

Whenever you invest your money, it is important to have a financial goal in mind, and a strategy for meeting that goal. For example, your goal might be to have a secure income for your retirement.

Think about getting professional advice from a licensed financial adviser to help you develop a suitable investment strategy based on the level of risk you're comfortable with. Then measure all investments against that strategy.

Is it important to you to protect your capital?

Be careful about words like 'safe' and 'guaranteed' in advertisements. They might imply that an investment is secure, when in reality it is not.

Certain financial institutions like banks, building societies or credit unions are specially regulated by the Australian Prudential Regulation Authority (APRA) to make sure that, under all reasonable circumstances, they can meet their financial promises to you.

Have you spread your investments to manage risk?

Most people have heard the saying, 'Don't put all your eggs in one basket'. When it comes to investing your money, a good way of managing risk is to spread your money between different investment types, such as cash, fixed interest, property and shares. These different investment types are known as 'asset classes'.

By spreading your money both across different asset classes and between different investments within the same asset class, you reduce the risk of losing everything if one of your investments produces poor results or fails completely.

Spreading your investments to manage risk is called 'diversification'. The spread will depend on your financial goals and how much risk you're comfortable with. Just investing in unlisted property schemes is not diversification.

What returns are you being offered?

'High return means high risk' is a familiar rule of thumb. However, as with all rules, there are exceptions to look out for. Some investments that appear to offer relatively modest returns can be extremely risky.

That's why it's important to think about more than just the return when deciding whether to invest in something. When comparing rates of return, make sure you compare 'apples' with 'apples' (that is, similar investments).

Can you get your money back early?

What happens if you need to get your money out quickly? Are there penalties and/or restrictions? How long might it take to redeem your units? Most unlisted property schemes are long-term investments and they do not allow you to get your money back at short notice.

If you need flexibility, think about investing in other financial products that allow you to withdraw your money without heavy fees or penalties.

Do you know how risky the investment is?

Unlisted property schemes are generally a riskier type of investment than term deposits issued by banks, building societies and credit unions that are prudentially regulated in Australia (see page 6 to compare these investments).

Ask yourself: is the return you are being offered high enough to compensate you for the risk you are taking by putting your money in this investment?

Can you accept the risks?

The main risk with an unlisted property scheme is that it might not be able to pay you distributions when they are due, or pay back your money when you ask for it or when the scheme ends (if the investment performed badly).

If you don't understand the risks of this investment or you're not comfortable taking any risks with your money, look at other financial products instead. Get professional financial advice if you're not sure about an investment decision.

Do you know what you're investing in?

Check what the scheme plans to do with your money. This information should be clearly set out in the PDS, but keep asking questions until you really understand.

Knowing what your money will be used for can help you assess the risks and decide whether you are comfortable with this investment.

Do you understand the key risks of the investment?

It is important that you fully understand the key risks associated with investing in an unlisted property scheme if you are considering such an investment.

Is the investment related to property development?

If your money will be used for property development (rather than established properties), think about these extra risks:

- Will the property development be completed on time and on budget?
- How is the property development valued?
- How will the scheme meet its cash flow needs before the property development is completed and sold (or rented out)?

The PDS should help you to answer these questions.

People like to think that investing in property is 'safe as houses'. In reality, it involves the same risk as any other investment—the risk of losing as well as gaining money.

Misleading advertising? Hard sell?

Have you come across an advertisement for a financial product that you think is misleading?

Or have you been pressured by a salesperson to make a decision when you didn't have enough information, or weren't sure that the product was right for you?

Let us know about it. Go to www.asic.gov.au/complain.

ASIC's consumer website, MoneySmart, offers you simple guidance you can trust, including:

- strategies to avoid sales pressure and tips on what to look out for before you invest
- more information on what to look out for in general investing, and
- where to go to lodge a formal complaint.

Go to www.moneysmart.gov.au.

Remember

- The benchmarks and disclosure principles are not a guarantee that an unlisted property scheme will perform well.
- Even if information for all the benchmarks and disclosure principles is in the PDS for an unlisted property scheme, you could still lose some or all of your money if things go wrong.
- Any investment should meet your goals and suit you.
- ASIC does not endorse specific investments.

ASIC's benchmarks and disclosure principles

The benchmarks and disclosure principles can help you:

- understand the risks, and
- decide whether to invest your money.

	Benchmark	Disclosure principle	Page
Gearing policy/ratio	1	1	14, 22
Interest cover policy/ratio	2	2	14, 24
Interest capitalisation	3	—	16
Scheme borrowing	—	3	25
Portfolio diversification	—	4	28
Valuation policy	4	—	17
Related party transactions	5	5	19, 29
Distribution practices	6	6	21, 29
Withdrawing from the scheme	—	7	30
Net tangible assets	—	8	31

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