Understanding liquidity in unlisted property funds

Liquidity is commonly misunderstood in unlisted property. This article draws on some key insights from Atchison Consultants to demystify liquidity.

Here, Atchison provides a definition of how liquidity often applies to unlisted property funds:

> Liquidity refers to the capacity to realise value in interests held in a portfolio either individually or collectively in such a way as to disadvantage neither redeeming investors nor remaining investors.
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> Section 601KA of the Corporations Act 2001 (Cth) Act stipulates that where a scheme is not liquid, a responsible entity must not allow an investor to withdraw from the scheme otherwise than in accordance with the scheme's constitution and sections 601KB to 601KE of the Act (which requires the making of pro-rata withdrawal offers).
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> Section 601KA(4) defines a scheme as liquid if at least 80 per cent of the value of the scheme is held in 'liquid assets' including, cash at bank, bank accepted bills and marketable securities unless the responsible entity cannot reasonably expect to realise them within the period specified in the constitution for satisfying withdrawal requests while the scheme is liquid. Other types of property may be liquid if the responsible entity reasonably expects that the property can be realised for its market value within the period prescribed by the constitution for satisfying withdrawal requests while the scheme is liquid.
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> If the scheme is liquid, the constitution may allow the responsible entity the ability to suspend or defer redemptions. Any such ability will be subject to any express or implied restrictions in the constitution, and any overriding duties of the responsible entity at general law or under the Act.
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> Determination of whether or not a fund is a liquid scheme will depend on the constitution of the fund and the terms offered in the public offer document.
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> The most common structure provided for investors by members of PFA are fixed term property syndicates. The liquidity policy for these syndicates are typically as follows:

- Investment period
  - A years with B year extension + a further C year extension with Unitholder's approval.
- Liquidity
  - Investors may not withdraw their investment during the term of the Trust.
  - There will be no secondary market for Units in the Trust however Investors may sell their Units to a third party with the approval of the Trustee and Investment Manager (not to be unreasonably withheld).

With this clear disclosure the response applicable to all questions raised is that the current disclosure in offer documents is clear regarding fund liquidity.

The process to extend the offer of the syndicate is also clear. It requires unitholder approval.

Source: Atchison Consultants

While fixed term or closed-ended funds provide limited liquidity to investors, there is a spectrum of liquidity available to unlisted funds.

Several open-ended unlisted property funds allow for investors to redeem part or all of their unit funds at regular or certain times during the fund's life, subject to factors which include the amount of cash or other liquid assets held by the fund, the ability of the fund to sell assets to fund withdrawals and the number of withdrawal requests made for the relevant period. There is always a risk that if there is a market correction or/and a run on withdrawals that withdrawals may be suspended for an extended period of time.

Liquidity should be considered with any unlisted property investment as part of a sound investment strategy.