Commercial property assets aren’t generally seen as safe havens, a term usually applied only to gold, the US dollar, Swiss Francs and Japanese Yen. But Brexit has altered perspectives about what ‘safe’ really means. The June 23 vote brought much anxiety to financial markets. With no precedent, many investors have been sidelined while the long term implications unfold.

One of the first casualties was the UK unlisted property sector, where many high profile fund managers including Henderson Global and Standard Life froze withdrawals. This caused a panic. Eventually, over half the value of the sector was frozen, meaning some £18bn of investors’ money could not be accessed. Until managers raise enough cash to meet redemptions, it will remain that way. It’s a tough pill to swallow for investors in one of the world’s most highly-regulated, liquid and transparent real estate markets.

With heightened anxiety levels in the UK and the theatrics of the US election campaign, investors are looking for not just safety and stability, but also a respectable return on their capital. Asia is one of the few regions of the world where they can get it.

According to Capital Economics, exports to the UK from Asia account for just 0.7% of regional GDP, rendering the direct economic impact of Brexit on the region minimal. An unequivocal outcome is that global interest rates are expected to stay low for longer than even we have assumed. Central banks will err on the side of caution, cutting rates where warranted to support economic growth and cushion the Brexit risk. Korean and Malaysian central banks have already led the way in this regard.

This is good news for Asian commercial property investors where yield spreads remain attractive. Core commercial property yields in Asia are 3-6%. That compares favourably with the 10-year bond rates in countries like Singapore (about 1.7%), Hong Kong (circa 1%) and Japan, where they hover around zero.

Of course, these cities cannot be viewed as ‘safe havens’ in the conventional sense. The immediate response to Brexit was a rise in genuine safe haven currencies and gold, not a rush into Asian commercial property. But as the consequences of Brexit sink in, many investors are looking to minimise their exposure to a troubled Europe.

Bonds might be a safe alternative but where yields do rise above zero, it isn’t by much. Currencies and gold meanwhile have their own problems. Against that backdrop, the attractive yield spreads available in Asia’s premium cities are getting more attention (see our recent fund commentary), especially given the structural factors driving the region’s growth. While Europe suffers from an ageing population, low growth and rising income inequality, Asia enjoys a vast and rising consumer class, rapid urbanisation and favourable demographics.

It’s an attractive recipe, but one where the ingredients need to be carefully chosen. Like APN’s Asian REIT Fund, global capital has focussed on Asia’s gateway cities. Hong Kong, Tokyo and Singapore rank among the top five in the Global Financial Centres Index, according to a report by research firm Z/Yen. Valued for their stability and maturity, Brexit has made them that little bit more attractive.

For local investors, APN’s Asian REIT Fund offers these same benefits: a current running yield of 5.91% plus a total return since inception of 17.57% pa; geographic diversity; complete transparency in pricing and the liquidity features of a REIT.

1. As at 31 July 2016. Current running yield is calculated daily by dividing the annualised distribution rate by the latest entry unit price. Distributions may include a capital gains component. Distributions are not guaranteed and past performance is not an indicator of future returns.

2. Returns shown are net of fees and expenses and are calculated since 19 July 2011 (when the Fund commenced) to 31 July 2016. Assumes distributions are reinvested. Investors’ tax rates are not taken into account when calculating returns. Past performance is not an indicator of future performance.

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