International Real Estate Portfolio Strategies

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PRRES 10th Conference
Sponsored by
Thammasat University (Thank you Professor Niputh Jitprasonk)
and the
Valuers Association of Thailand (Thank you Director Sopon Pornchokchai)
And Dr. Naris Caiyasoot, Rector of Thammasat University

Thank you for this invitation!! ขอบคุณครับ
I am honored to participate.

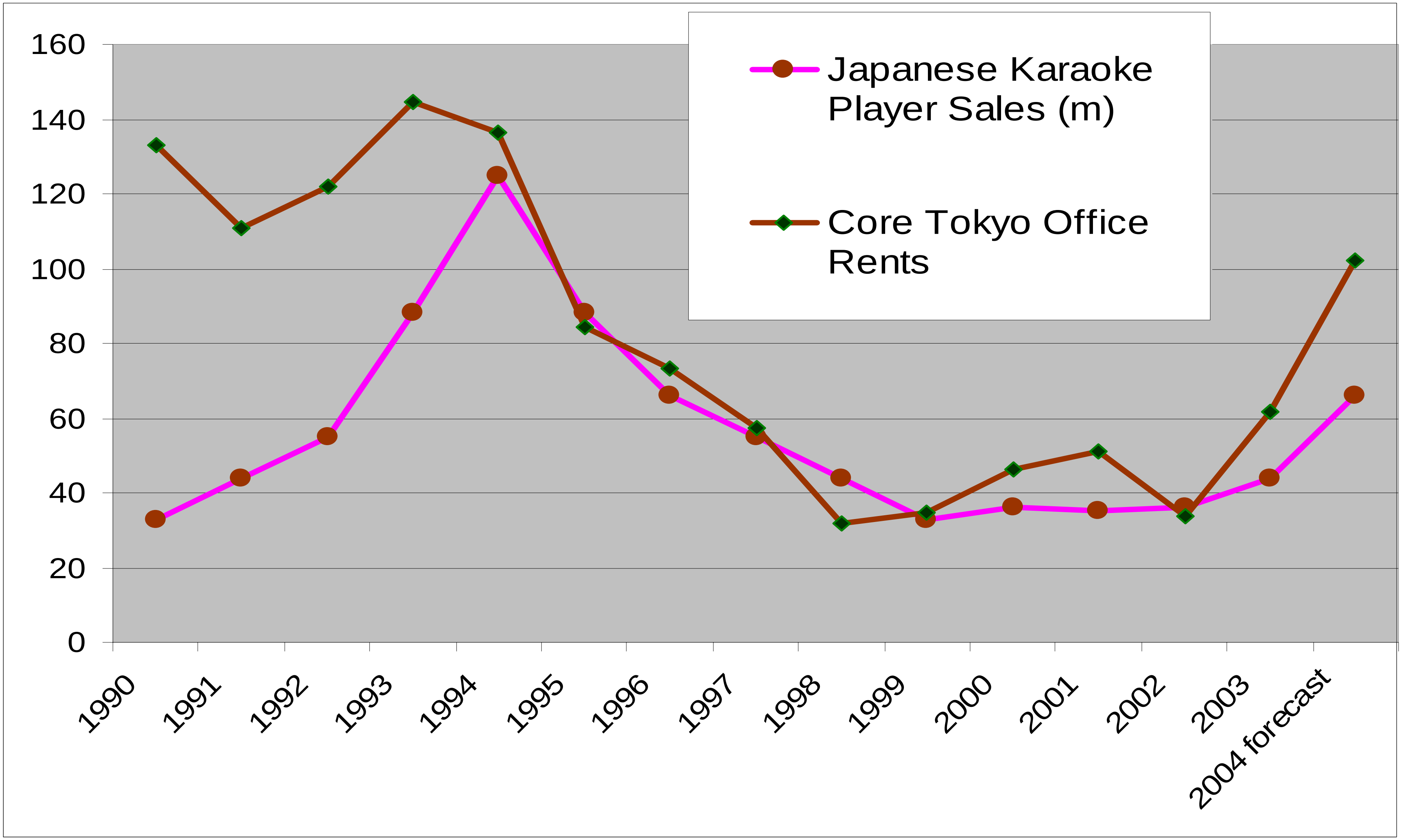
How Geography is Taught by US Pres. Bush

(source AMP Henderson Global Investors)

Let’s quickly jump into some interesting market evidence…. Little Known Previously Secret Empirical Relationships Found After Exhaustive Review

Significant at the 5% level

Sales of Karaoke Players and Tokyo Office Rents



There are others that we don’t have time to review today such as

- US “liberating” attacks on smaller countries and the value of Real Estate in Cuba (negative correlation)
- The price of miniature Buddha's in Thailand and the rent on Class B retail space.

More seriously (but not totally seriously) today we will cover:

- **The case** for and against international real estate investment with a review of some key studies (not too many)…
- **The evidence** in terms of returns and risks (diversification).
- A review of some investment advisor approaches to international real estate.
- A proposed strategy going forward.
- Some direct investment criteria.
- Summary and conclusions

Some research credits before we begin

Research Firms

- DB Real Estate
- GPR (Netherlands)
- DTZ
- IPD
- Prudential (Liang, Gordon, Lowrey)
- Jones Lang LaSalle
- Henderson Global (Pierzak and others)
- RREEF now part of DB
- Colliers International
- Ibbotson and Assoc.
- Ernst and Young
- Deloitte, Touche, Tohmatsu

Some Leading Authors

- Piet Eicholtz, Hans Van Opt'Veld and GPR
- Martin Hoesli with Jon Lekander and Witold Witkiewicz
- Patrick Wilson and Ralf Zurbruegg
- A.J. Ziobrowski
- Glenn Mueller
- Dave Geltner
- Andy Baum
- Addae-Dapaah
- Only authors who have treated me nicely will be mentioned ☺

The Case for Going Global

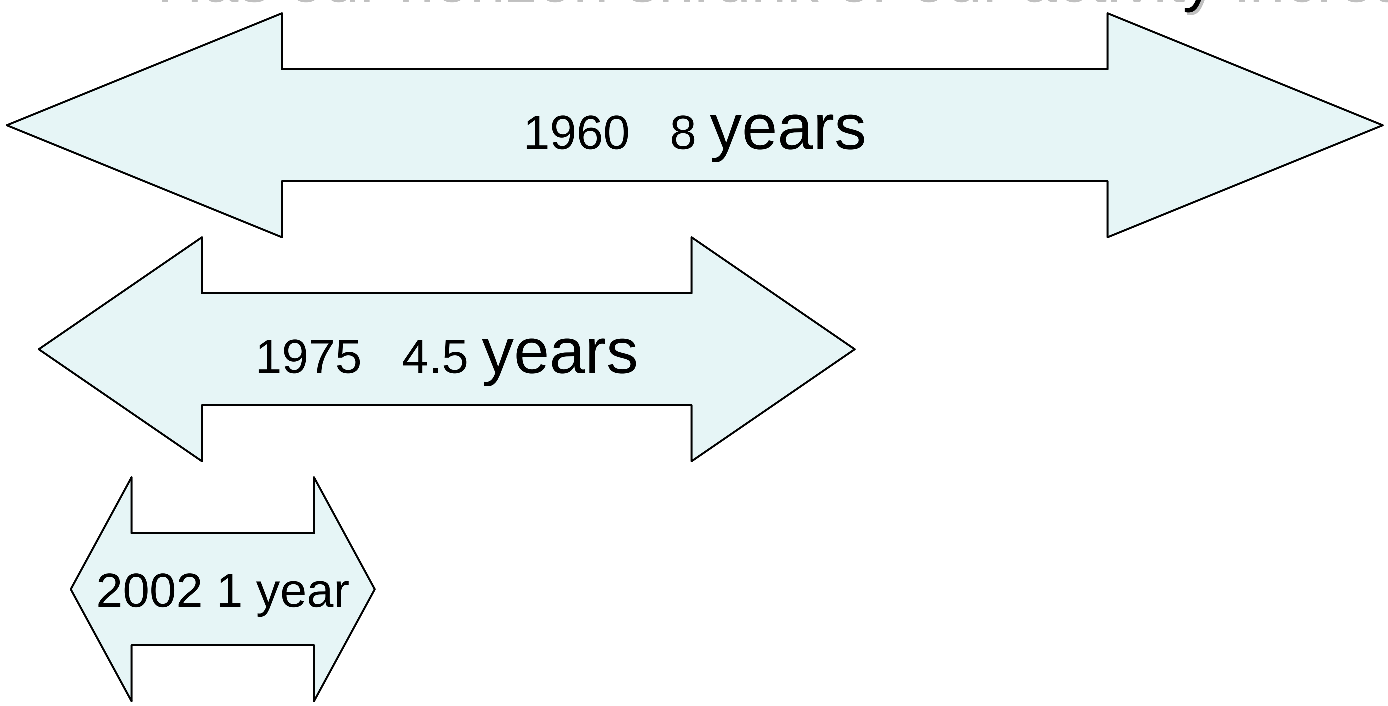
- Lower Portfolio Risks Through Diversification
  - Highly dependent on our return correlation measures and our investment horizon
- Increase Returns
  - Highly dependent on our view of market efficiency, cycles and the ability to forecast trends as well as liquidity and transaction costs
  - Note stated objectives versus ex-post reality
- Lower Risks and Increase Returns

International Portfolio Diversification Key Questions

- What is our investment horizon?
  - Influences how quickly we judge performance
- Do investors really care about risk?
- What is the appropriate horizon for measuring correlations and how stable are the correlations we use to judge diversification?
- Is there enough data history?
- What is the appropriate portfolio?
  - RE or All Assets

International Portfolio Diversification Key Questions

- What is our investment horizon?
  - Note that Andre Perold (Harvard Bus) published a study on the average holding period for stock
  - Has our horizon shrunk or our activity increased?

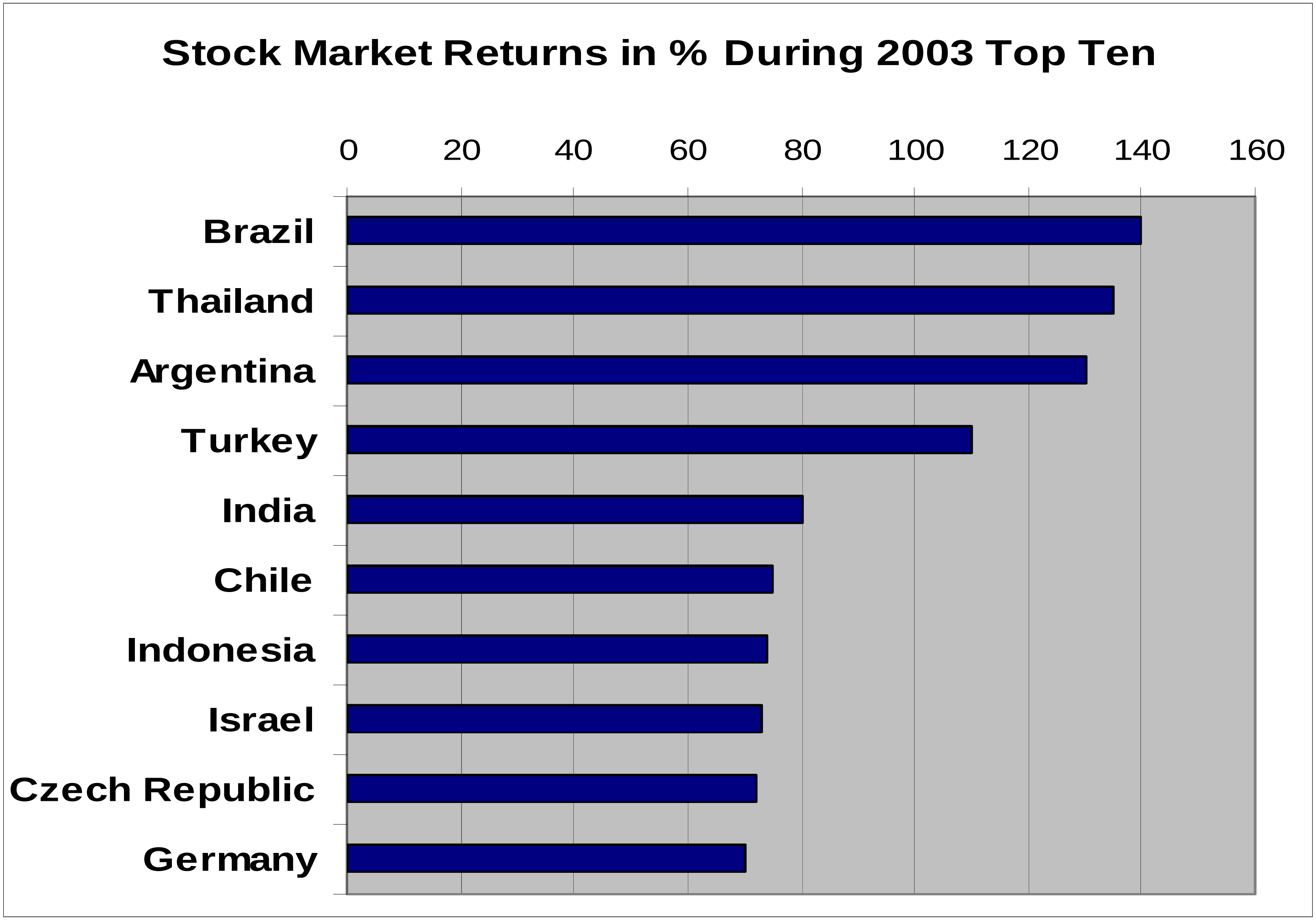


- Do investors really care about risk?
  - Until the Tech stocks crashed in 1998 we saw that when returns were high investors seemed to forget about risk.

It can be difficult to remain objective about risk until you get burned.

- And remaining objective can be hard.

But Who Thinks About Real Estate When Stock Markets Soar?



International Diversification Indirect or Securitized Evidence

Courtesy of Pat Wilson and Ralf Zurbruegg, J. of RE Literature, 11:3, 2003, pp 259-278.

- Supporting
  - Asabre, Kleinman & McGowan (1991)
  - Eicholtz & Koedijk (1996)
  - Addae-Dapaah & Kion (1996)
  - Eicholtz (1997) & with Huisman, Koedijk, Schuin (1998) & with OptVeld & Vestbirk (1999)
  - Hoesli, Lekander, & Witkiewicz (2003)
  - Literature Review: Sirmans, C.F. and E. Worzola "Investing in International Real Estate Stocks: A Review of the Literature" *Urban Studies*, 2003, 40:5/6, 1115-1149.
- Not Supporting or Qualified Support
  - Liu and Mei (1998)
  - Ling and Naranjo (2002)
  - One major caveat of all such studies is controlling for currency risk. Mull an d Soenen (1997) found this impaired the use of RE stocks. This is the same concern of most international investments, you win or lose because of a currency move. Hedging can be expensive and difficult.
  - Stevenson (2000) found that international RE stocks did not enhance a portfolio's return or risk attributes.

International Diversification Studies Using Securitized Real Estate

Supportive

- Asabre, Kleinman & McGowan (1991)
  - Found low positive correlations between US REITs and Non-US real estate equities but the modern REIT was not yet born.
- Eicholtz & Koedijk (1996)
  - Found less correlation among real estate stocks than for other international securities or bonds. Suggested higher returns with lower risk but did not control for currency risk.

International Diversification Studies Using Securitized Real Estate

- Addae-Dapaah & Kion (1996) took a Singaporean country view point and used data from 1977-1992 with 7 countries. They found substantial diversification benefits but warned about correlation stability problems.

- Eicholtz (1997) controlled for currency risk and compared real estate stocks to common stocks. Found that the correlations between real estate stocks and common domestic stocks varied by country. We now know that the correlations change as the market matures.
- Again the US Modern REIT did not materialize until 1992. I.e.

Note how US REIT return correlations have changed over time according to Ibbotson Associates in a recent study for NAREIT see www.nareit.com

Period	Small Stocks	Large Stocks	Bonds
1970's	.74	.64	.27
1980's	.74	.65	.17
1972-2000	.63	.55	.20
1993-2000 Modern REIT period	.26	.25	.16

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1993-2000 Modern REIT period	.26	.25	.16

Which statistic is most valid looking forward?

International Diversification Studies Using Securitized Real Estate: More Support

– Eicholtz with Huisman, Koedijk, Schuin (1998) & with OptVeld & Vestbirk (1999)

- Used a multifactor model to examine correlation with the continental market, like a **continental beta**. Found continental interdependency except in Asia Pacific suggesting that most investors would be wise to look beyond the closest shore.

International Diversification Studies Using Securitized Real Estate Warnings and Insights

– Liu and Mei (1998) found much risk and some diversification was inherent in currency fluctuations.

– Ling and Naranjo (2002) found that markets were becoming more global and integrated and as such found a world wide market beta factor. The capital markets are definitely becoming more integrated. (10 year government bonds have nearly converged in terms of real rates for developed countries)

Invest in global firms domestically based?

- Just buy Coca Cola or P&G?
- Some US REITs are now becoming global and providing some international diversification. For example these US based REITs are starting to invest internationally:

  Chelsea Property Corp (CPG) retail

  Archstone Smith (ASN) residential

  Shurgard (SHU) storage

  AMB Property (AMB) industrial

  Prologis (PLD) industrial

  First Industrial (FR)

    Still it is a small list with a small portion of foreign real estate!

International Diversification Direct Evidence

(90% + of the data but harder to study)

- Why has it been so hard to do such studies?
- Direct data is harder to get.
  - Most early studies have been completed by those who controlled the data or have been inside team members or consultants.

- Major players didn’t want the details of their properties revealed so they only wanted aggregate data to be available.
- The market wants transparency but not all the investment advisors.

What is the big concern with using direct data?

- Smoothing or understating true price volatility based on infrequent appraisals and biased appraisals that do not adjust fully to current market conditions. (Geltner 1989+)
  - Most studies today will unsmooth the data and make assumptions about underlying risk.
  - Data history is often too short and emerging markets need to reach a certain threshold, large enough to attract institutional investors before the return trends stabilize.

International Diversification Direct Evidence

Courtesy of Pat Wilson and Ralf Zurbruegg, J. of RE Literature, 11:3, 2003, pp 259-278.

Study	Key Issues Raised
Newell and Webb (1996)	Appraisal smoothing lowered risk by 34%-47%, also currency risk
Geurts and Jaffe (1996)	Political risks, corruption, unfair laws, lack of property right enforcement.
Pagliari, Webb, Canter & Lieblich (1997)	Disaggregating property types would allow better diversification benefits.
McAllister (1999)	High information costs, high execution costs proved significant barriers.
Hoesli, Lekander and Witkiewicz (2003)	Controlled for currency risk and smoothing, found real estate stocks seldom entered the efficient portfolio while direct real estate did.

International Diversification Direct Evidence - Not Supportive

Courtesy of Pat Wilson and Ralf Zurbruegg, J. of RE Literature, 11:3, 2003, pp 259-278.

Study	Key Issues Raised
Ziobrowski and Curcio (1991)	Exchange rate volatility inhibited benefits.
Ziobrowski and Boyd (1991)	Used leverage and foreign debt to offset exchange rate risk but then the leverage induced more risk than benefit.
Ziobrowski and Ziobrowski (1993) Ziobrowski and Ziobrowski (1995) Ziobrowski, McAlum and Ziobrowski (1996) and with Rosenberg (1997)	Currency options used to hedge exchange rate risks but failed to find compelling reasons for adding US real estate to foreign portfolios. Same old story from Ziobrowski.
Goetzman and Wachter (1996)	Global integration implies no safe haven for real estate investors in any country.
Quan and Titman (1997 and 1999)	Found mixed results in multi-national portfolio as they sought economic fundamental drivers of direct and stock returns.

"International Evidence on Real Estate as a Portfolio Diversifier"

Research paper N 70, University of Geneve, July 28, 2003 by

Hoesli, Lekander, and Witkiewicz

- Probably the most complete international study to date covering both direct and indirect real estate, with and without currency hedging, using unsmoothed direct return data.
- Supports use of a Bayes Stein mean expected return approach which diminishes the influence of short term returns (chasing winners).
- Concludes that the real estate allocation should be about 15% to as much as 25% of an optimal portfolio. Finds significant benefits from international investment.
- Note that investment advisors to pension funds and others routinely use higher real estate and stock correlations, higher measures of return standard deviations and lower estimates of future returns in order to bias the results against real estate where they have less experience and fewer investment advisors to choose from. They want to see 5% to 10% not 15% to 25% and in fact the market could not easily absorb this much capital.

Bringing Forecasting and Better Expected Return Estimates Into Real Estate Portfolio Construction Process

- We know that real estate prices are serially correlated. (Case and Shiller, 1989) and (Miller and Sklarz, 1986) Even US Treasury Bills show some autoregressive behavior so why not use this for deriving expected returns?
- This is one step beyond a Bayes Stein approach but the problem is spotting turning points in trends. Nevertheless, one real estate portfolio paper attempts to do this is a fashion.
- Anderson, R., G. Mueller, and X. Xing, "International Real Estate Portfolio Construction: Conditional and Unconditional Methods", working Paper, Presented at the American Real Estate Society Meetings, April 2, 2003. Randy_Anderson@baruch.cuny.edu
- They find benefits from using past return trends and determining a mix that is based in part on history and trends that might be behavioral in nature.
- The problem is that tweaking direct real estate portfolios or rebalancing every year is very difficult.

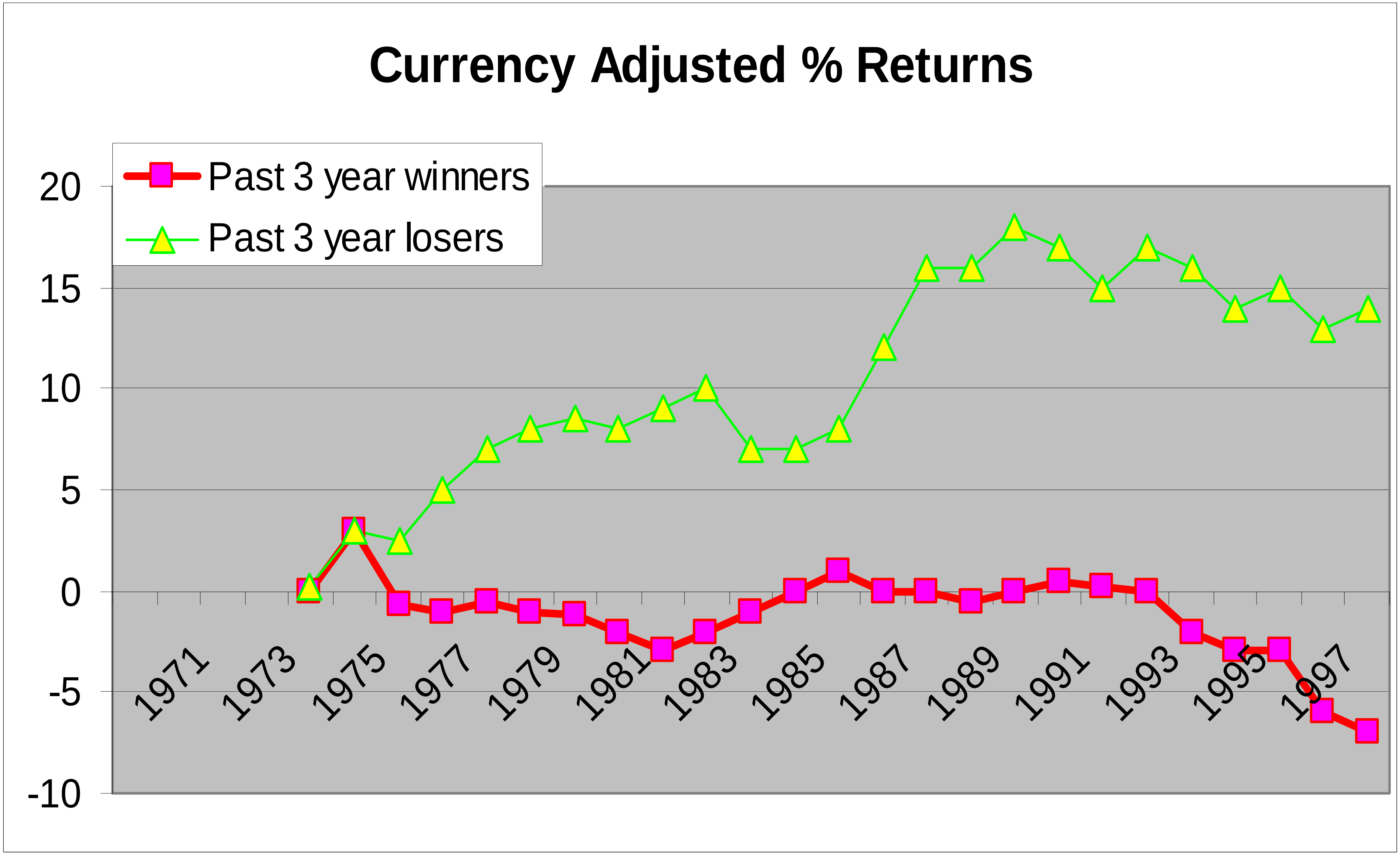
Bringing in Herd Behavior and Psychology as a Way to Predict Trends

- DeBrondt and Thaler have shown that the market reacts in sometimes predictable ways that oscillate around fundamental trends.
- In a recent working paper by DeBondt, Fung, and Lam (2003) “The Speculative Dynamics of World Equity Markets” they study stocks from 18 industrialized countries since 1970 with some fascinating results:

DeBondt, Fung, and Lam (2003) "The Speculative Dynamics of World Equity Markets" Werner DeBondt, DePaul University, Chicago

- Authors assume excessive optimism or pessimism and model strategies one of two ways, either follow current short run momentum or use longer run reversals (contrarian approaches).
- Fundamental selection approaches did not prove as useful as these behavioral approaches.
- You could do well chasing winners but only for a short period of time.
- If you followed three year losers you did better than if you followed three year winners, something like this:

DeBondt, Fung, and Lam (2003) “The Speculative Dynamics of World Equity Markets” Here we see the effects of picking a basket of country stocks based on prior relative performance.

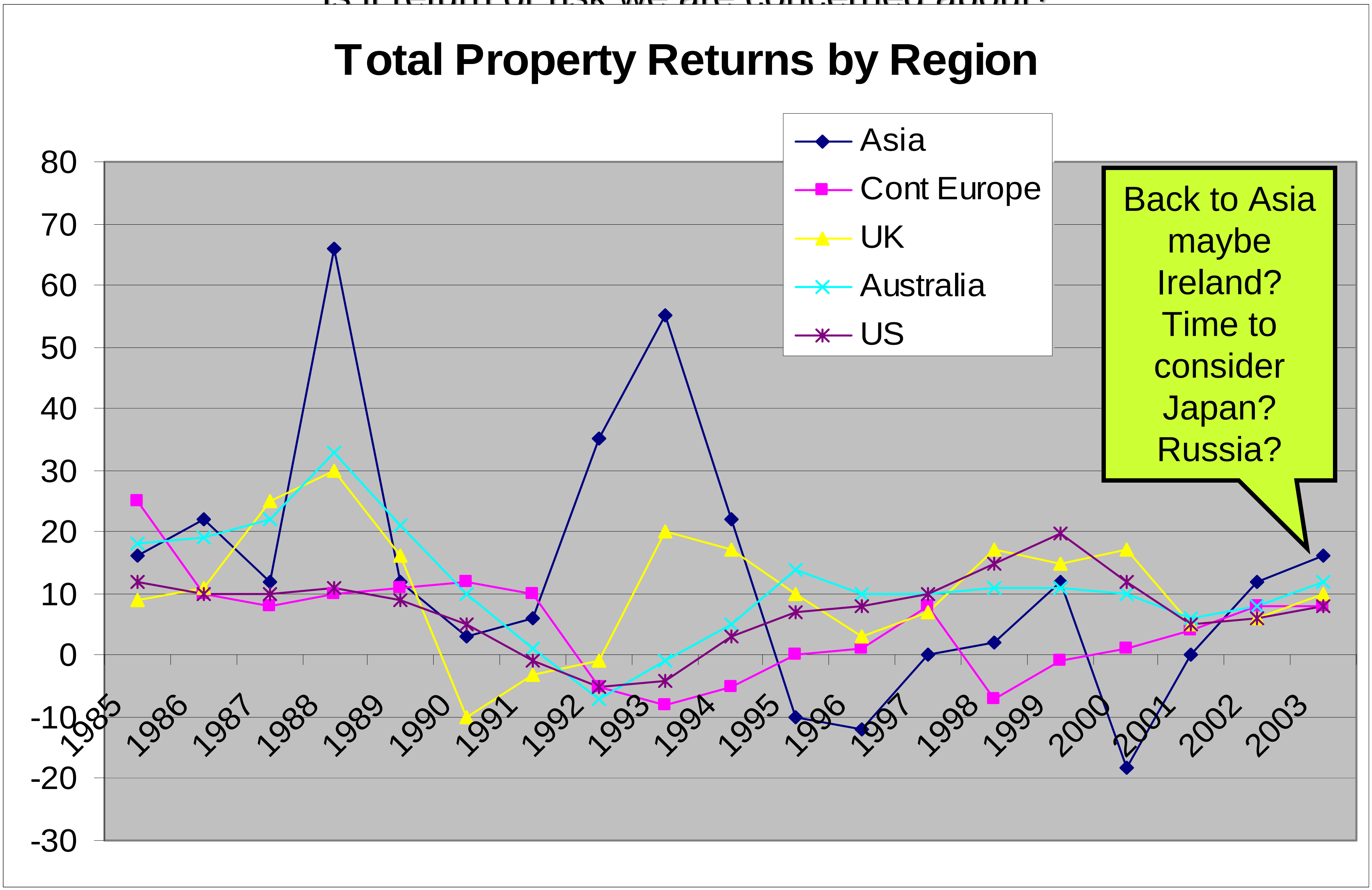


Cycles and Picking Winning Countries or Regions

- Can we apply contrarian investing to direct real estate or consider the momentum of trends? Is she on her way up or on her way down?

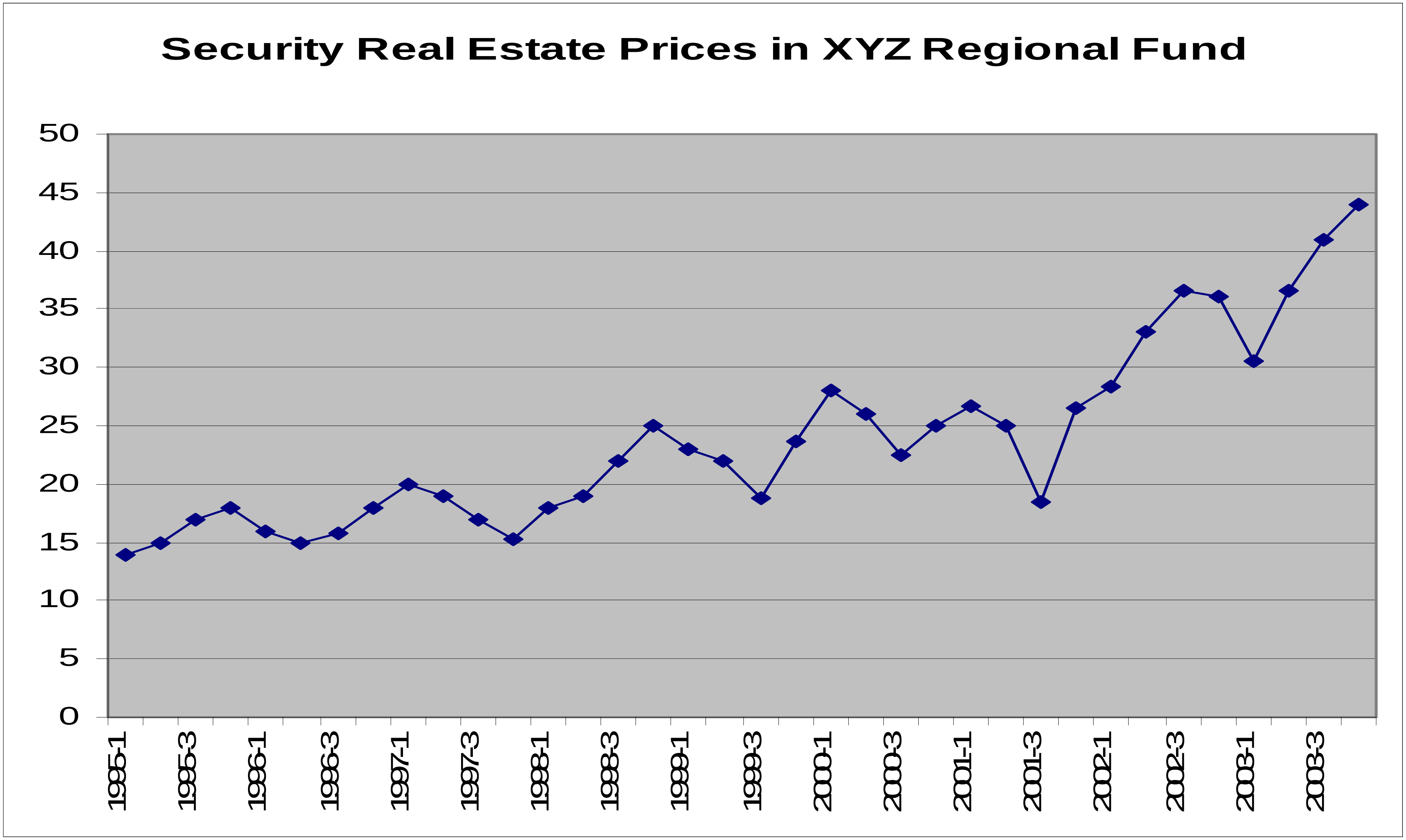
Investing in the Right Regions

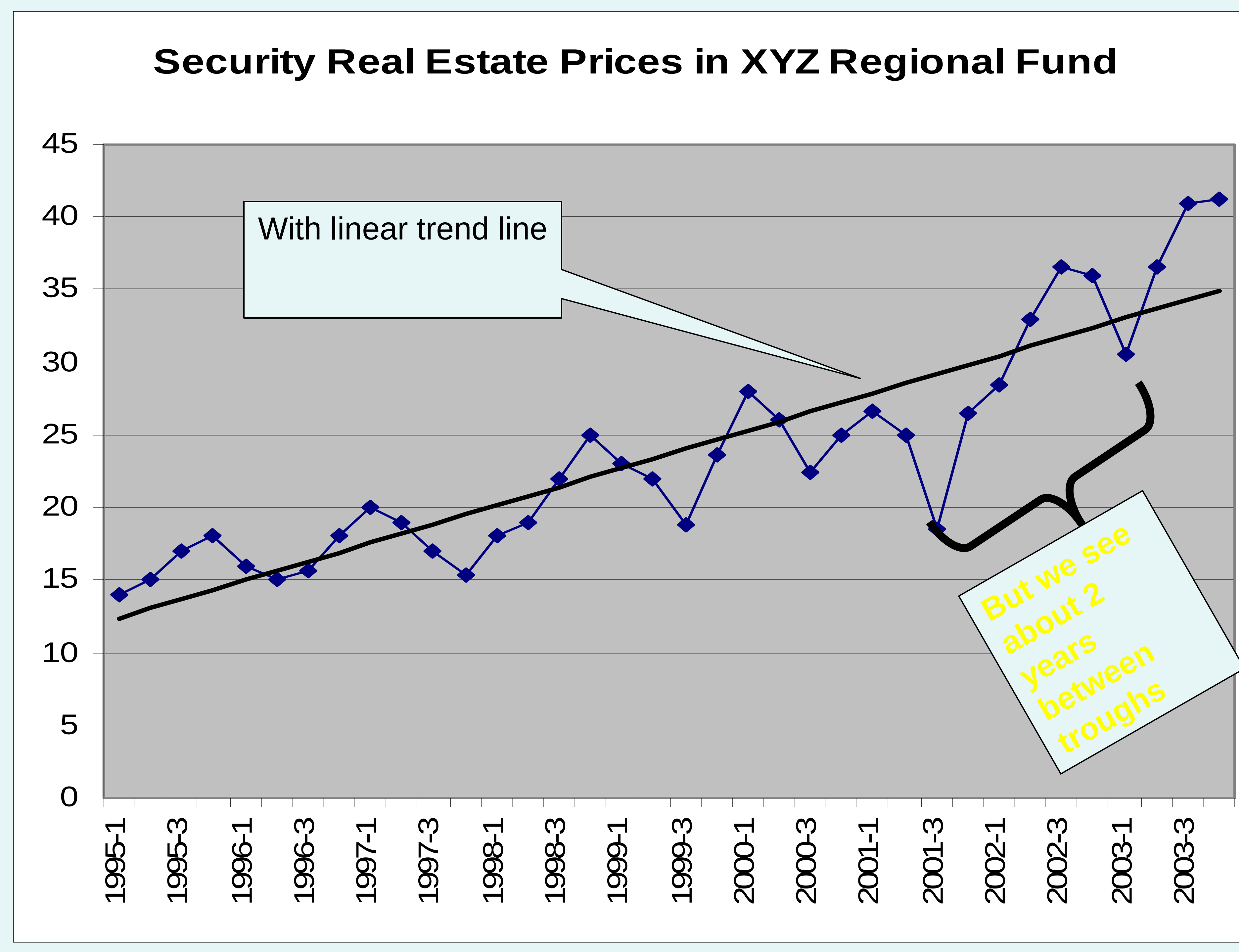
Is it return or risk we are concerned about?



Even Indirect Securitized Real Estate Timing Can Be Hard

Remember the investment horizon question?




Security Real Estate Prices in XYZ Regional Fund
With linear trend line
But we see about 2 years between troughs
45
40
35
30
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10
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1995-1
1995-3
1996-1
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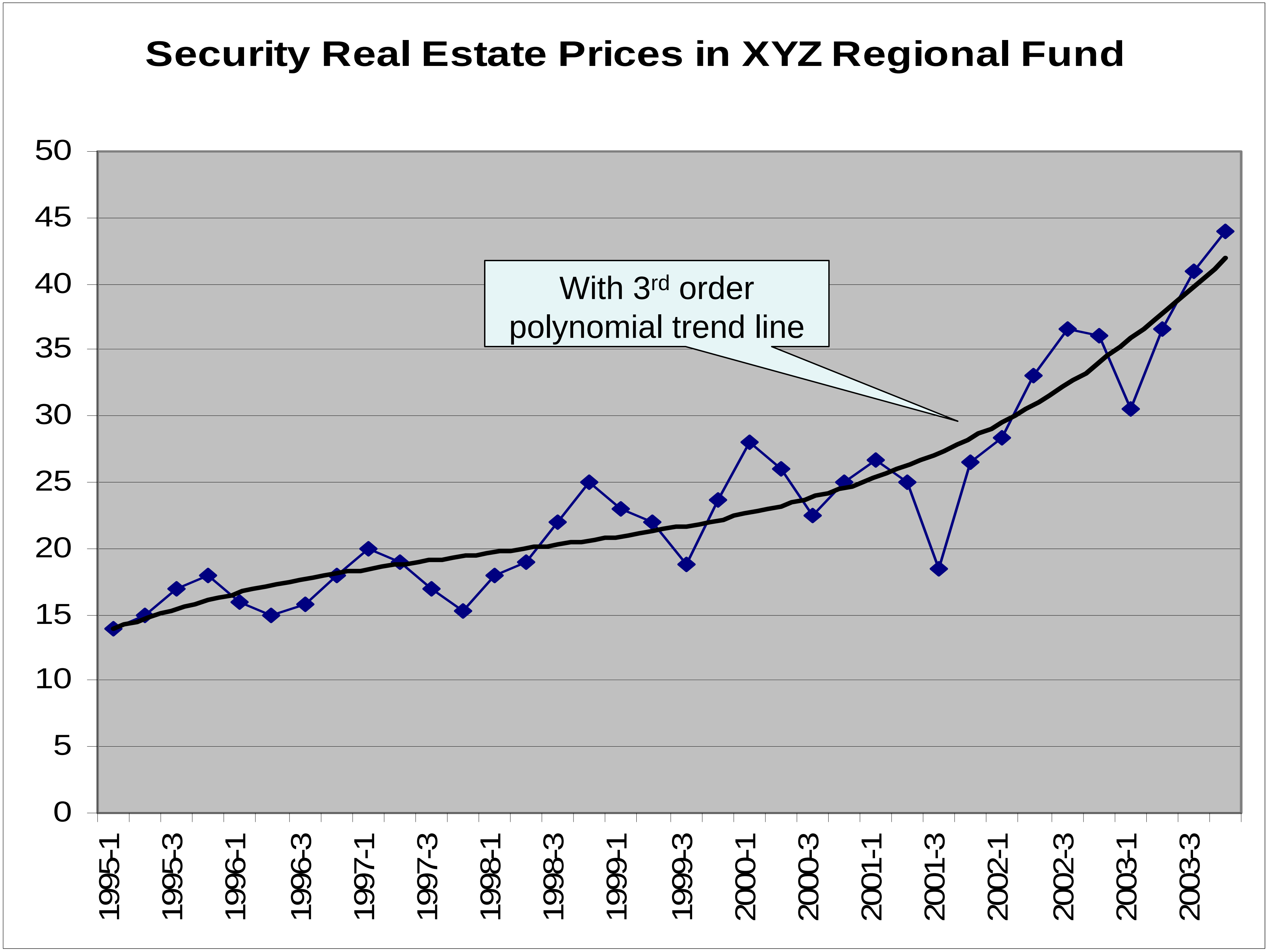
Security Real Estate Prices in XYZ Regional Fund
With 3rd order polynomial trend line
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45
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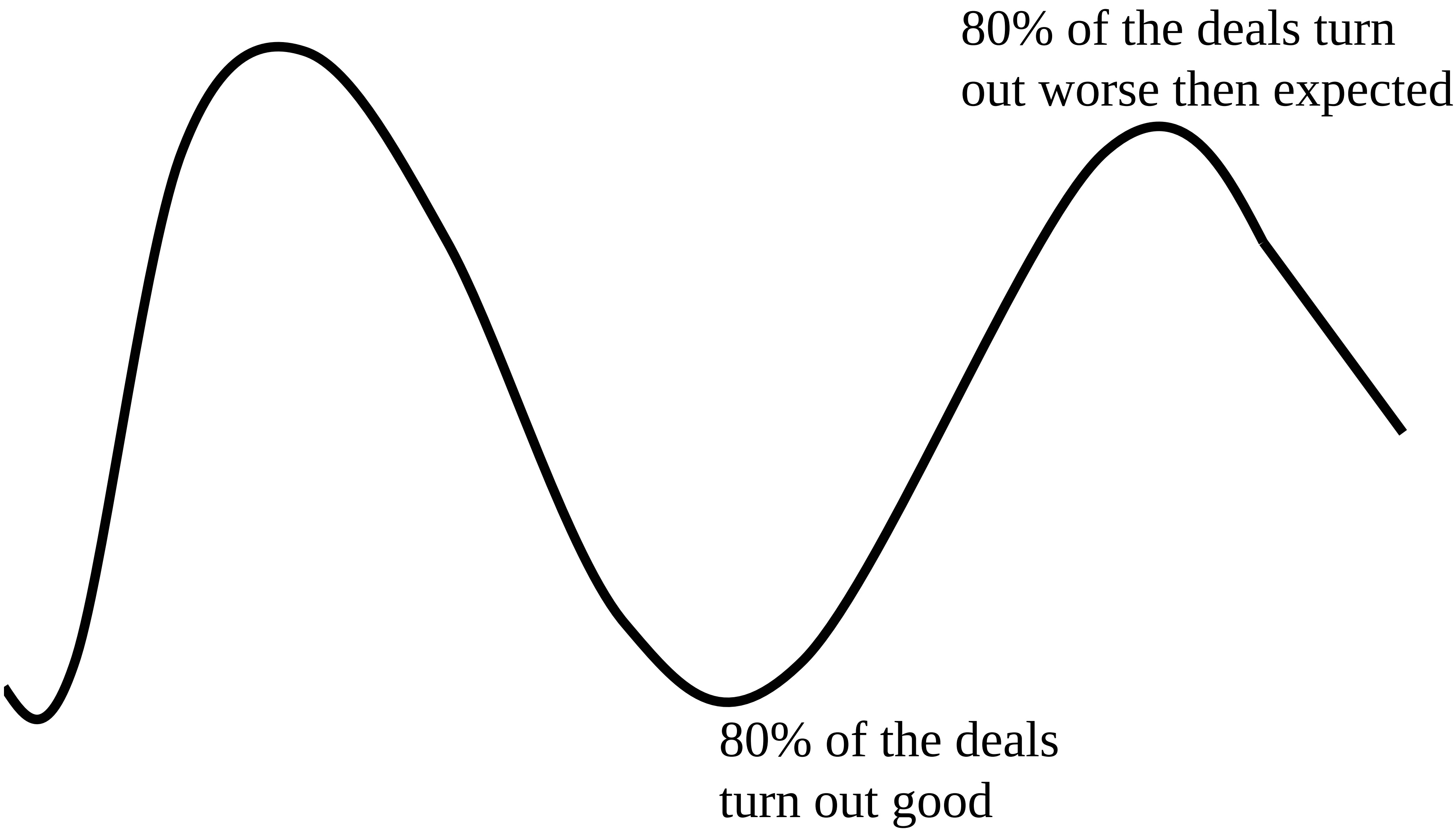
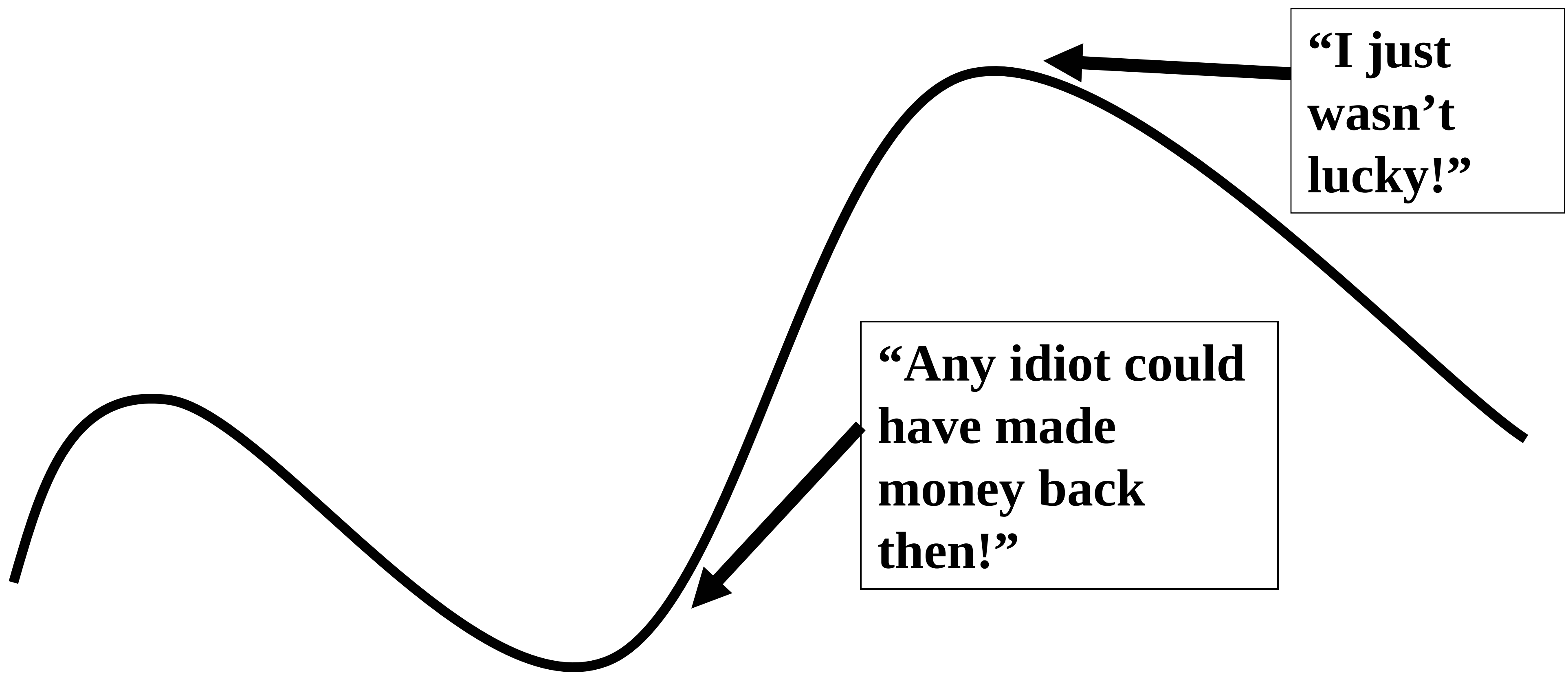
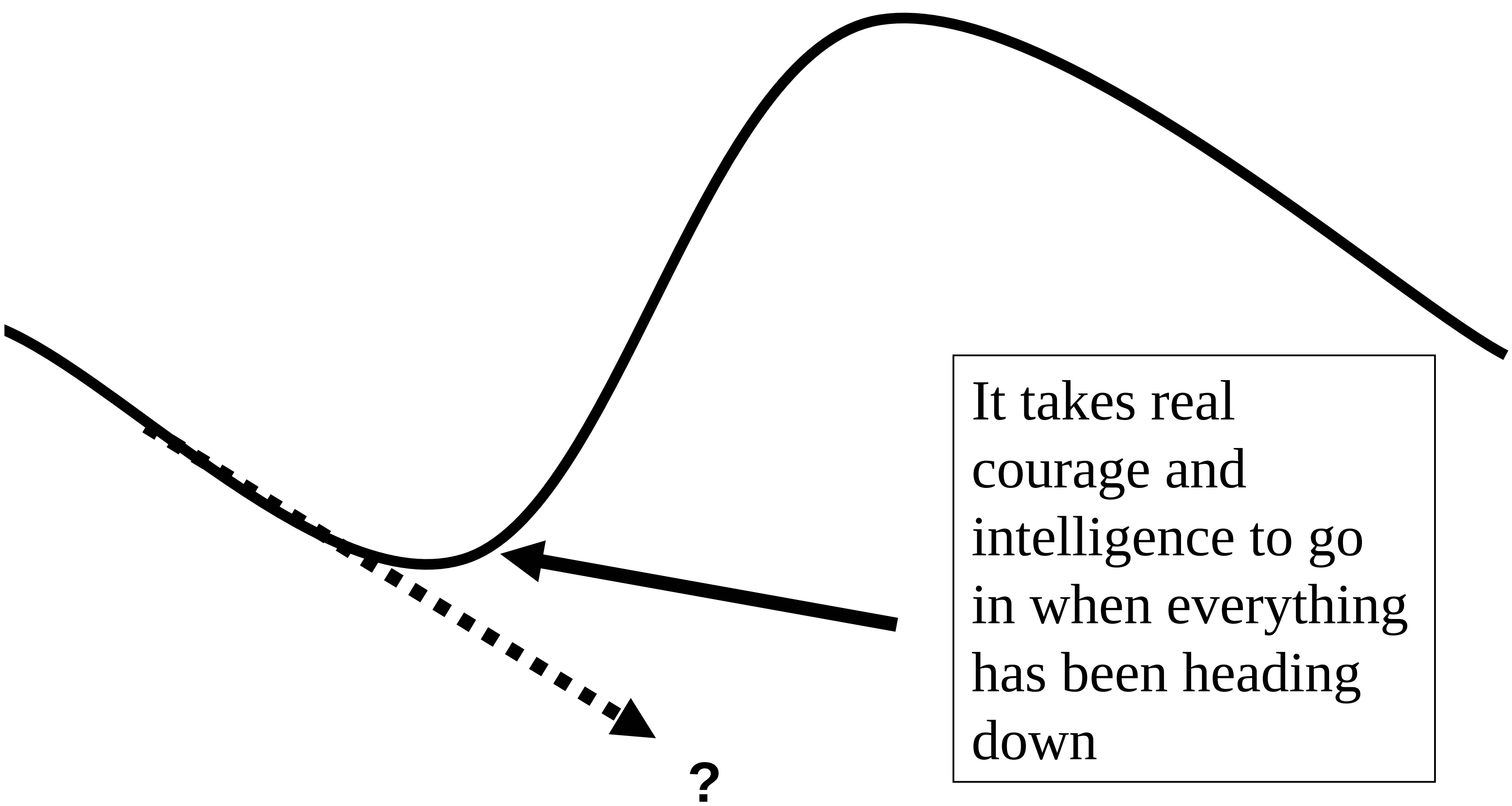
The Probabilities of Deal Success with Cycles



The Rhetoric of Cycles



The Reality Behind Cycles



How to go global?

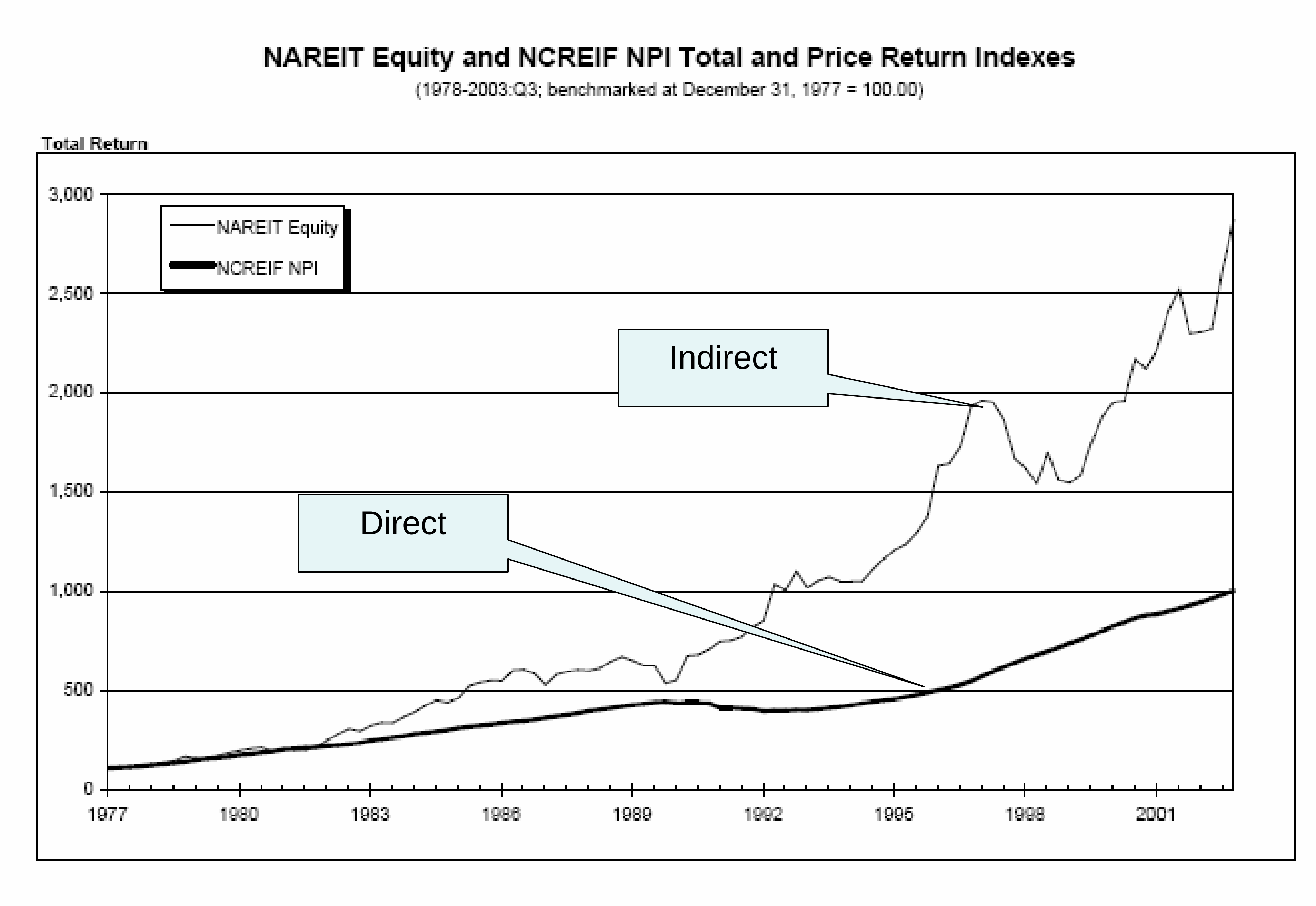
- Direct?
  - Most big investment managers have a study that shows the benefits of going global and they have a plan ready to show how they can put your money to work. All of them have no doubts about the benefits of going global.
  - We will look at some of their work in a moment.

How to go global?

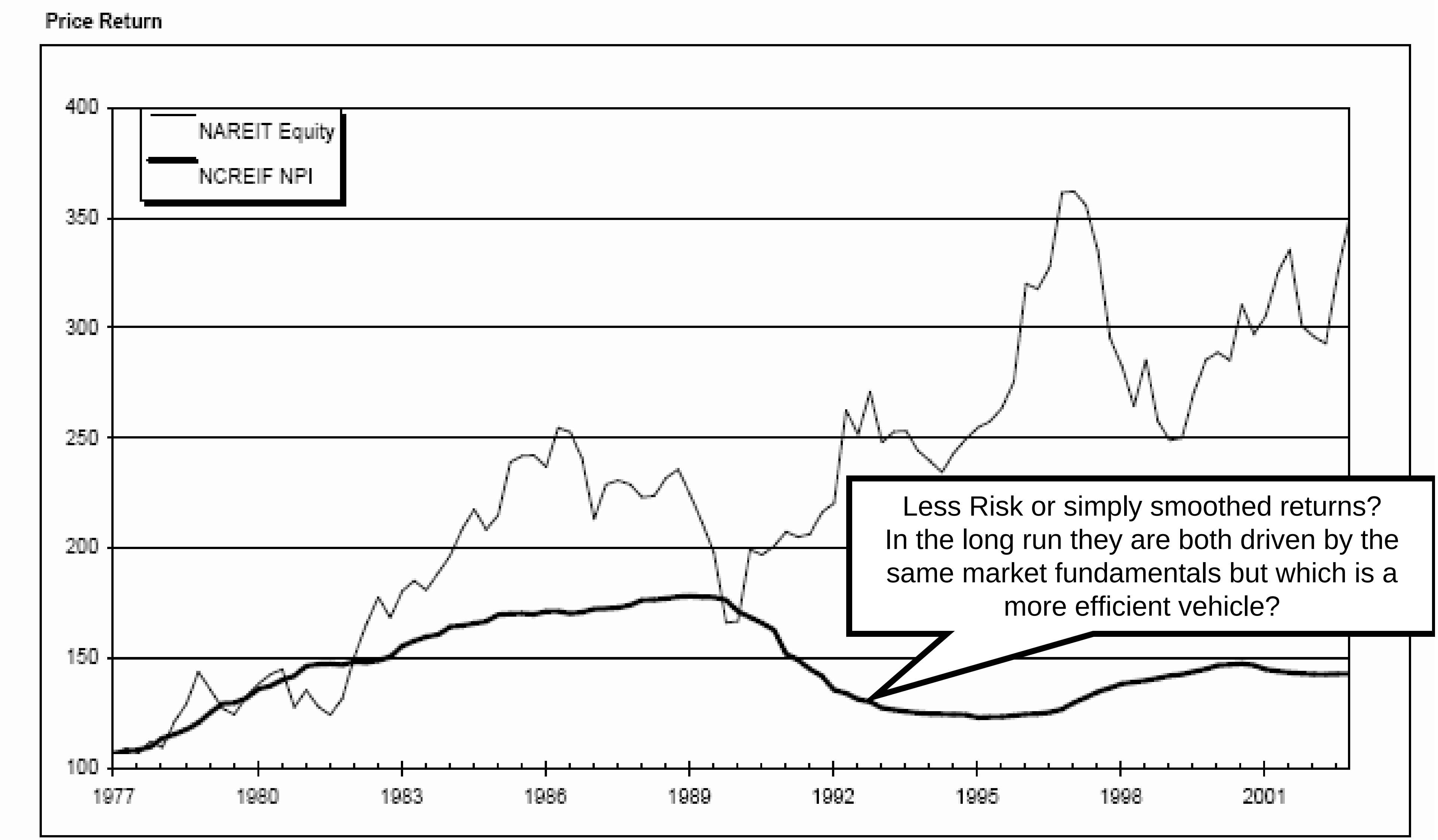
- Indirect? (Public securities)
  - We did not have enough product until recently to consider this question.

And if you are in the US you must be willing to ignore US return history and explain it away to want to go direct based on recent US real estate performance…..

US Direct vs Indirect Evidence



Isolating the Price Effect US Only



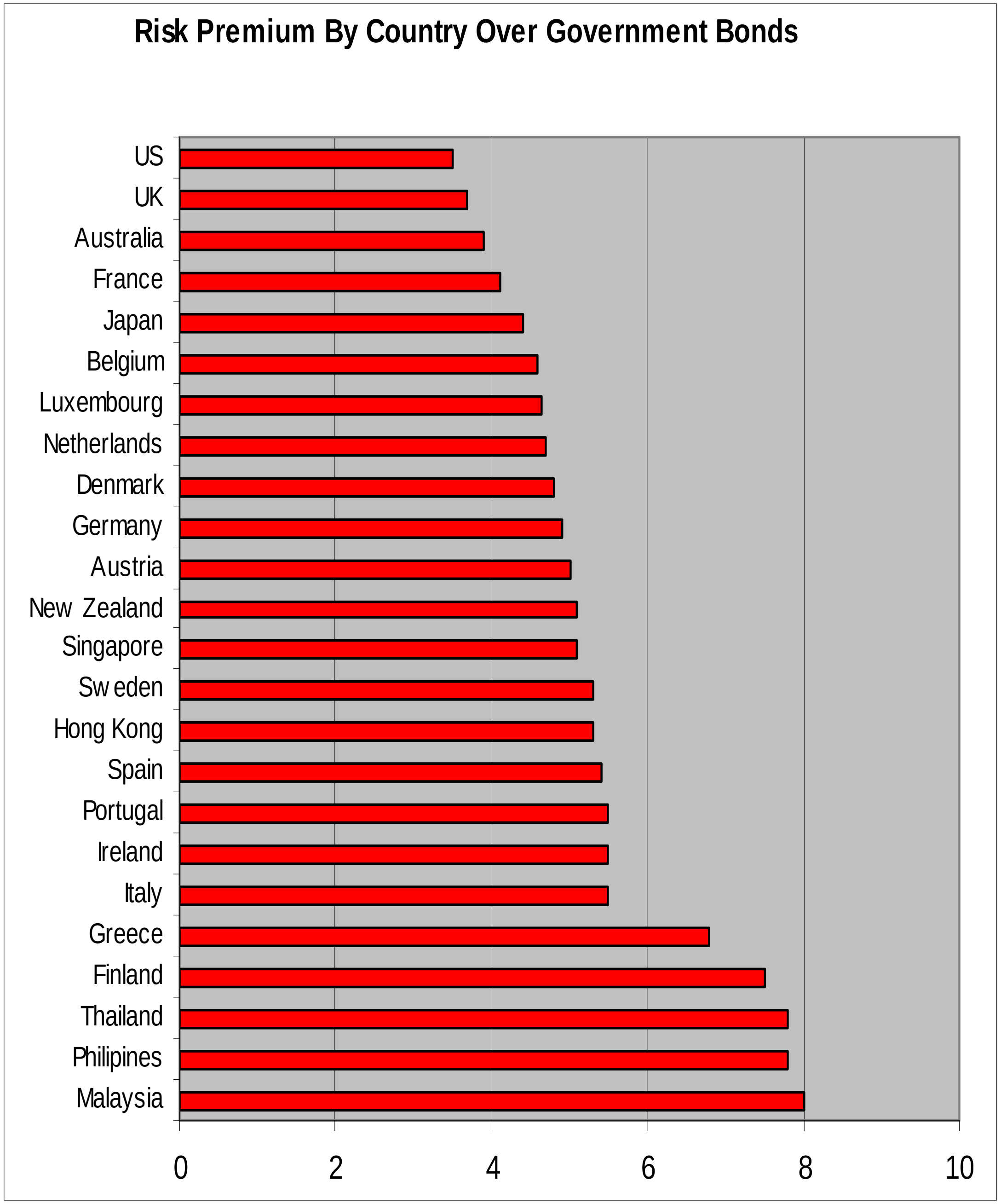
Going Global With Advice From:

- Global Henderson (London based)
- Prudential (NY/NJ Based)
- DB (RREEF) German and US
- Strazsheim Global Advisors (CA US)
- Jones Lang LaSalle
- Each approach will be briefly examined
- Most rely heavily on GDP growth as the key variable – of course supply should matter as well – but we do not have such data readily available except at the very local level.

Going Global with Global Henderson

- Use GDP driven rent forecasts and 6 risk criteria:
  - Default risk, legal risk, political (currency risk and inflation), liquidity risk, and market transparency to devise risk premiums for foreign investors.
  - Selected risk premiums are shown on the next slide.

Global Henderson's Risk Premiums



Global Henderson’s Efficient Frontier Using Continental Groups is Based on the Following 5 Year Return Correlations
Note this supports the work of Eicholtz

	Asia	A-NZ	Europe	Con Erpr	UK	US	World
Asia Pacific	100	29	45	53	0	-47	53
Asia		25	41	50	-4	-50	50
AUS – NZ			95	91	94	64	92
Europe				99	84	56	99
Cont Europe					76	48	99
UK						79	78
US							49

Notice how well Asia combines with UK and US portfolios in search of diversification

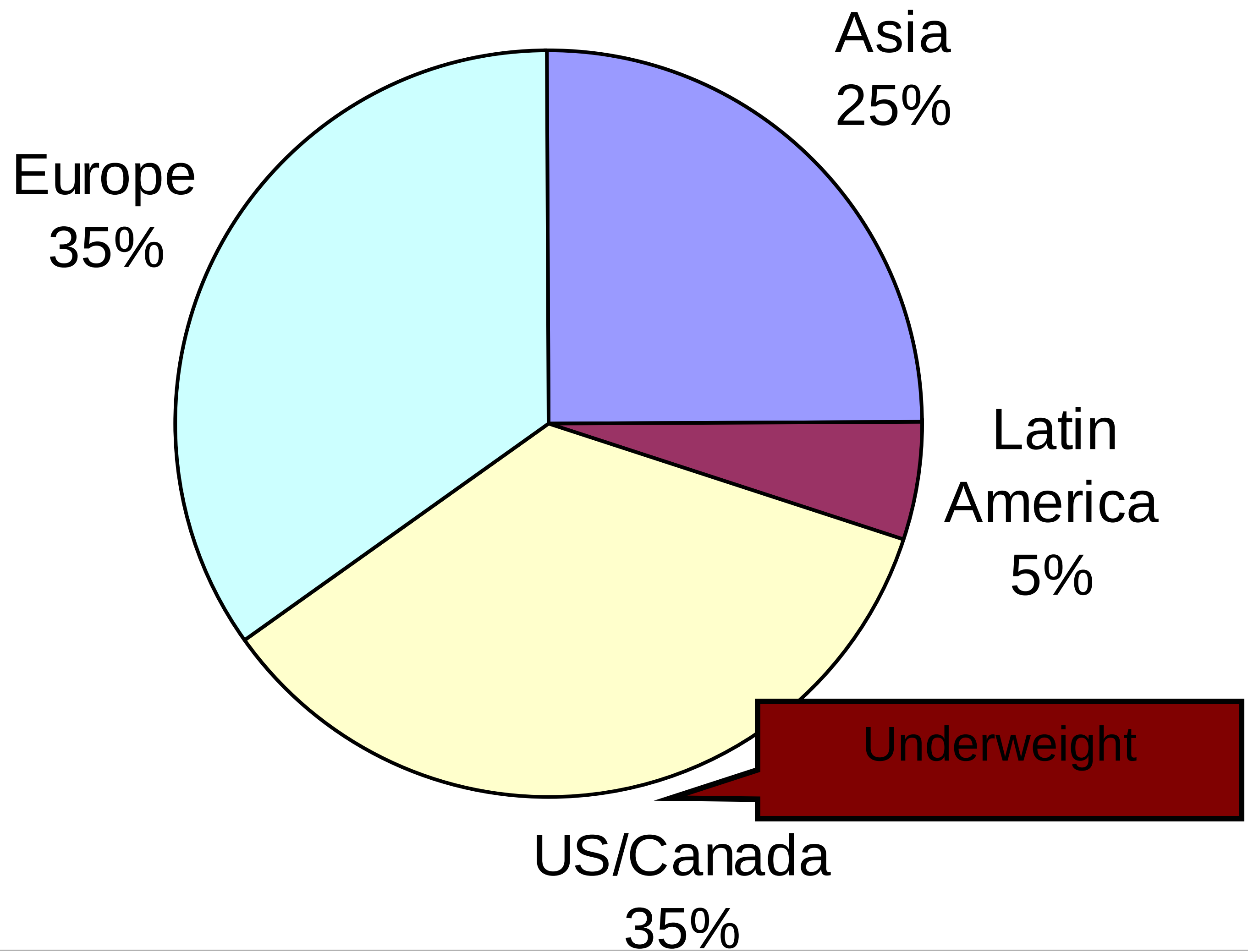
Prudential

- Estimates the world market of real estate at 12.5 T $US which includes owner occupied and rentable. This is 250% of what is considered investable by other studies that focus on “core”.
- The three largest regional markets:
  - US/Canada at $4.86 T
  - Core Europe $2.23 T
  - Japan $1.91 T
- They conclude (from the US perspective) an international portfolio provides a 35% higher risk adjusted return than a US only portfolio.

Going Direct With Prudential Advice Selected Risk Premiums by Country

- Prudential has Switzerland, Luxembourg, Netherlands, the UK, Germany and Norway as less risky or the same as the US.
- Slight risk premiums are required for Finland, Austria, Denmark, Belgium, Canada, Sweden, Ireland, Spain, Italy, Singapore and Australia.
- Significant risk premiums are required for E. Europe, China, S. America, Mexico, Thailand and most other countries. Extra high risk premiums are required for Indonesia, Vietnam, Ukraine, Russia and Argentina.

Prudential's Model RE Portfolio Allocations By Region



Going Direct with DB (Includes RREEF)

http://www.db-real-estate.de/grundbesitz/services.nsf/doc/TLAR-5KRJNQ/$file/GoingGlobal.pdf

Risk/return trade-off improves in an international portfolio

Market	Risk[1] (%)	Return (% CAGR)	Risk/return (ratio)
New York	56.3	3.1	18.0
Los Angeles	38.7	1.3	29.4
London	22.1	6.0	3.7
Paris	29.1	5.8	5.0
Frankfurt	22.4	6.0	3.7
Milan	32.6	6.8	4.8
Sydney	19.4	1.7	11.6
Hong Kong	25.1	10.4	2.4
"World"[2]	11.2	5.5	2.0

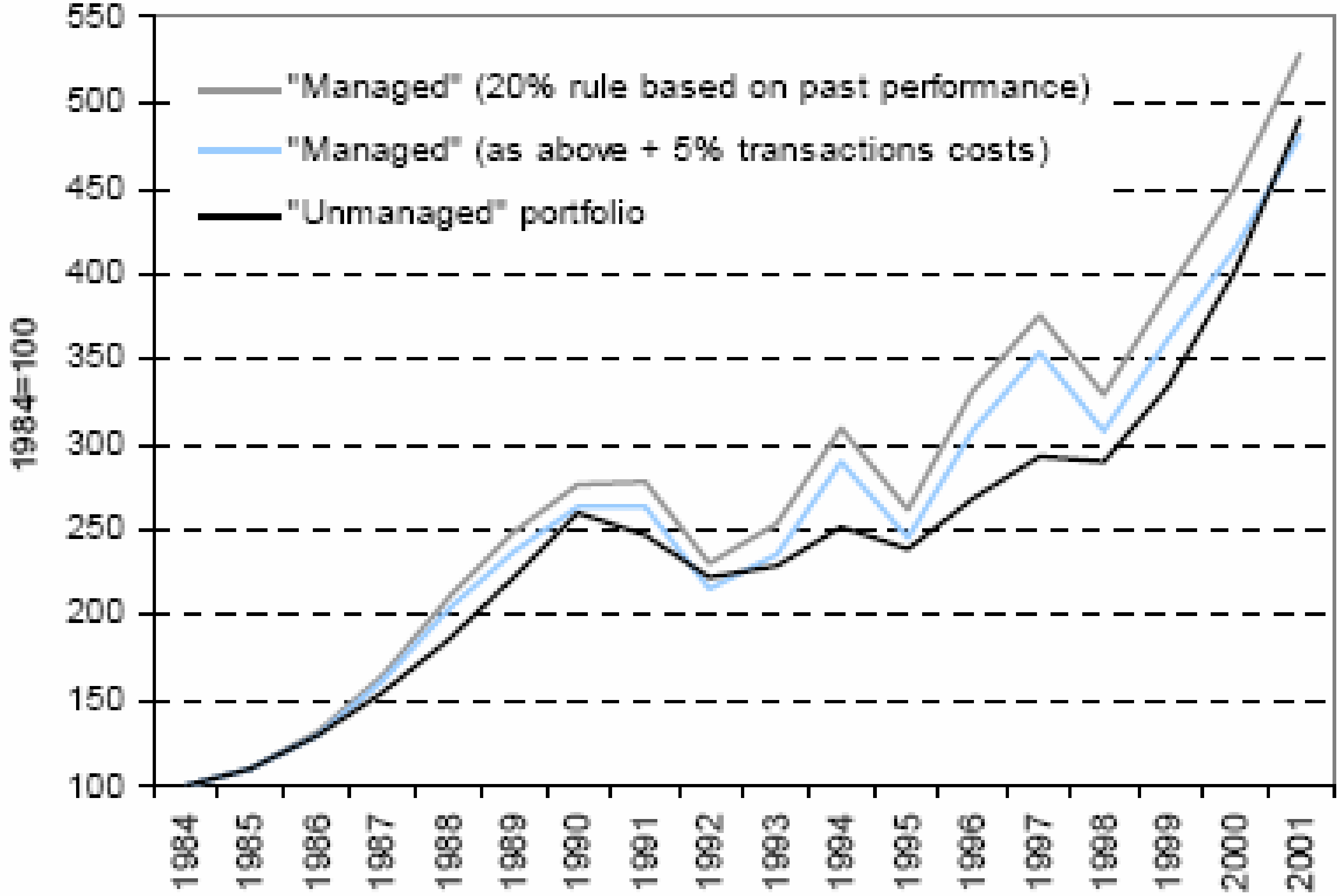
[1] standard deviation from trend of annual total returns 1989-2001

[2] equally-weighted portfolio of above

Source: NCREIF, Jones Lang LaSalle, IPD, Property Council of Australia, FPD Savills, DB Real Estate Research

Bullish on Hong Kong as the best single diversifier

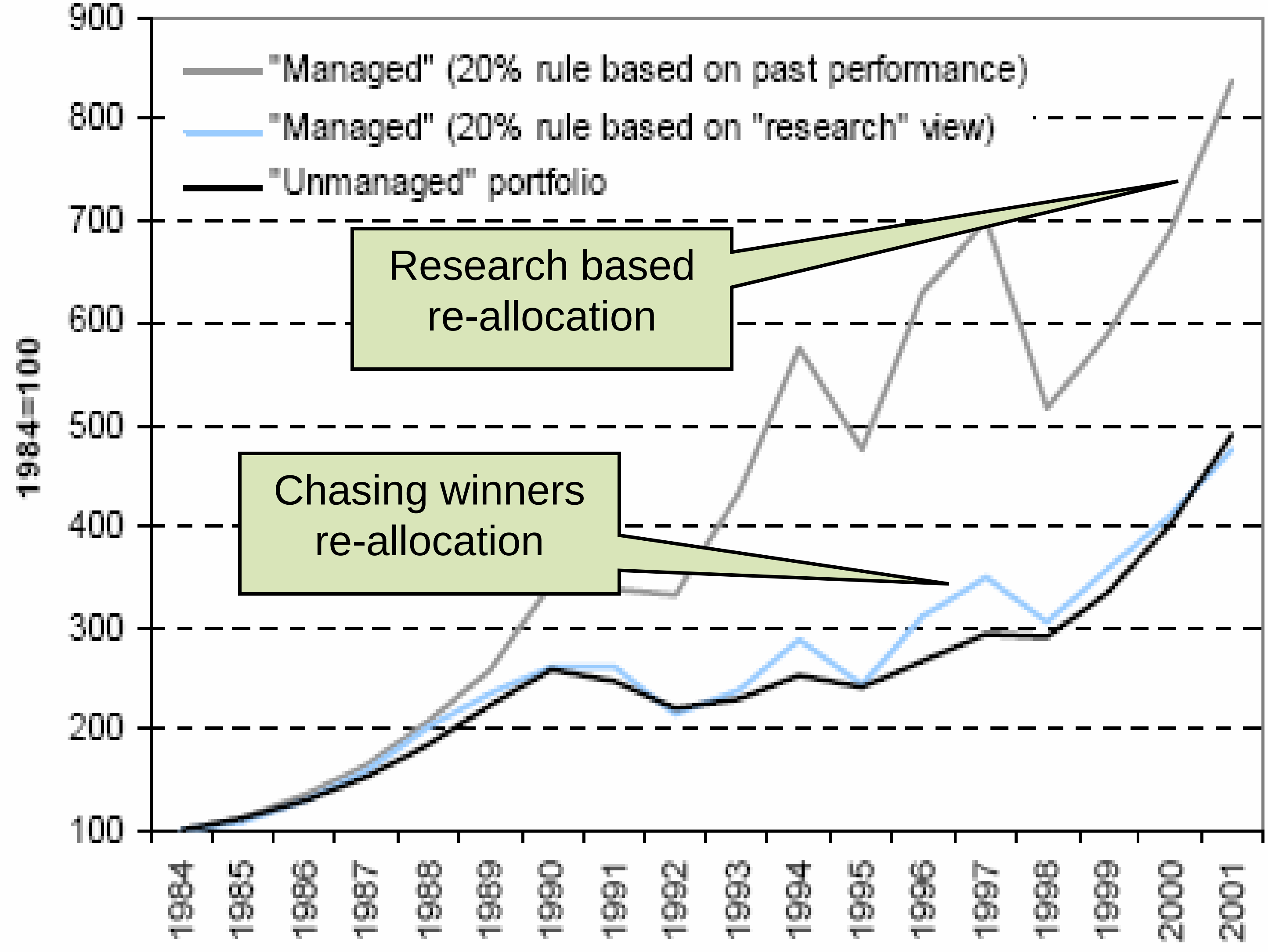
Transactions costs kill gains from a simple "managed" portfolio...



Source: DB Real Estate Research

With DB Real Estate Research of course…

...but in a "research"-based portfolio gains far outweigh trading costs



Strazheim

next

Straszheim Global Advisors suggests considering the population age as a factor in future productivity.

They are also bullish on China and bearish on Japan. See http://www.straszheim.com

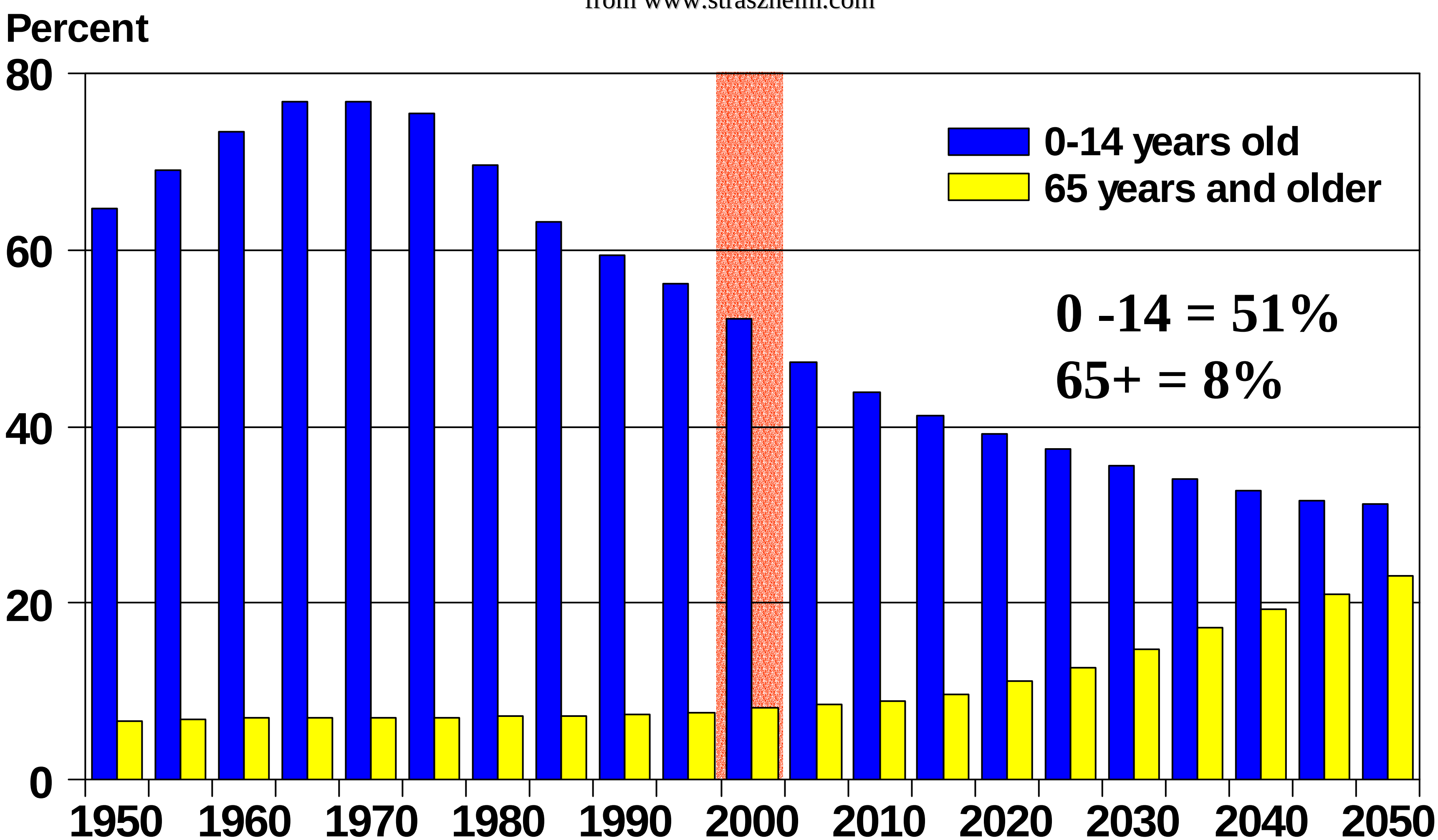
	Total Pop (M)	Growth Rate	% Aged 0-14	% Aged 65+
Young	3131	1.5	30	6
Old	753	.5	18	15

Young Ex	**Old Ex**
Brazil	Australia
China	Canada
Egypt	France
India	Germany
Indonesia	Italy
Mexico	Japan
Pakistan	Spain
Philippines	UK
Turkey	US

Dependents-Developing World

Young and Old as % of Working Age Population

from www.straszheim.com



Dependents-Developed World

Young and Old as % of Working Age Population

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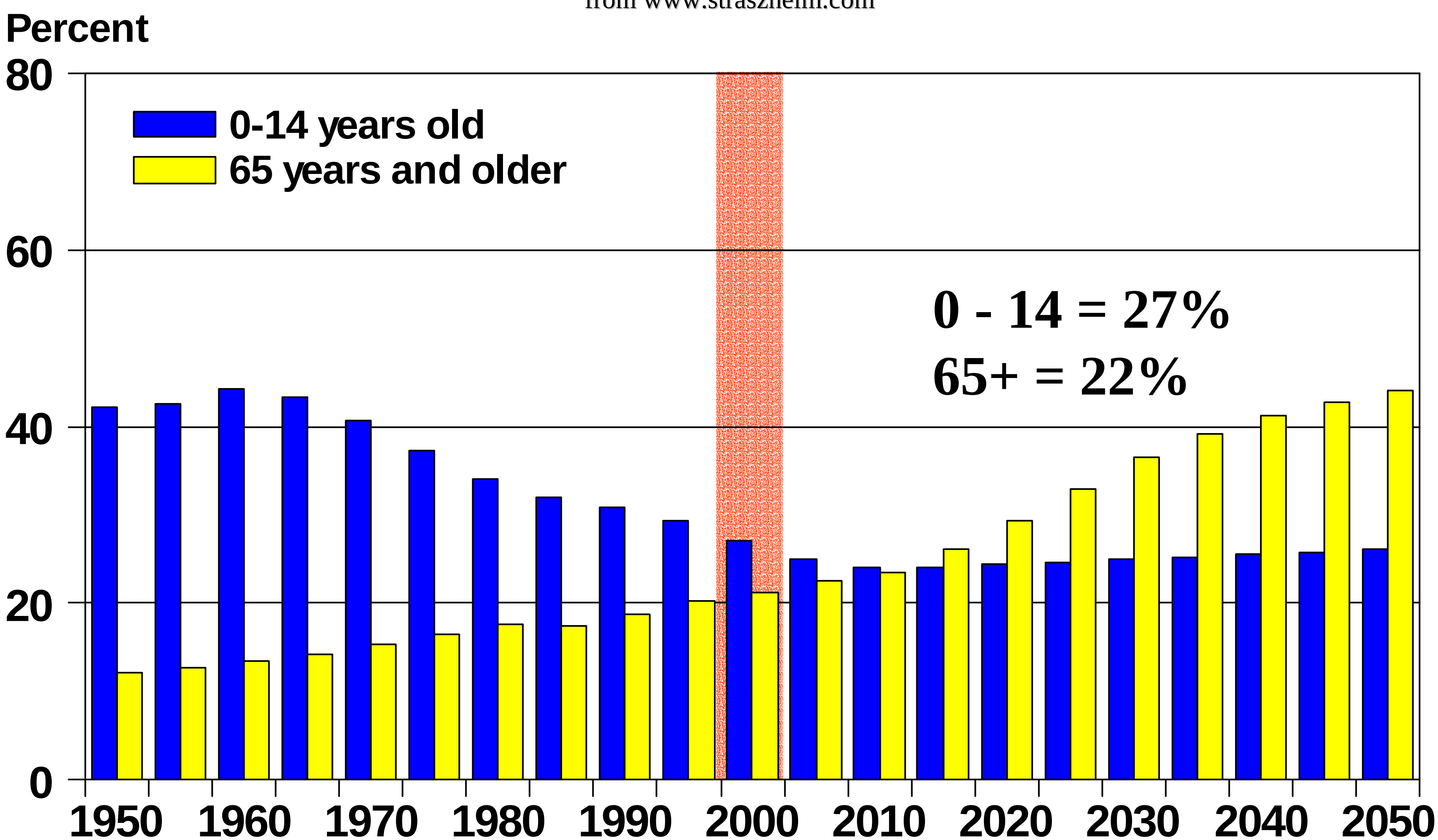
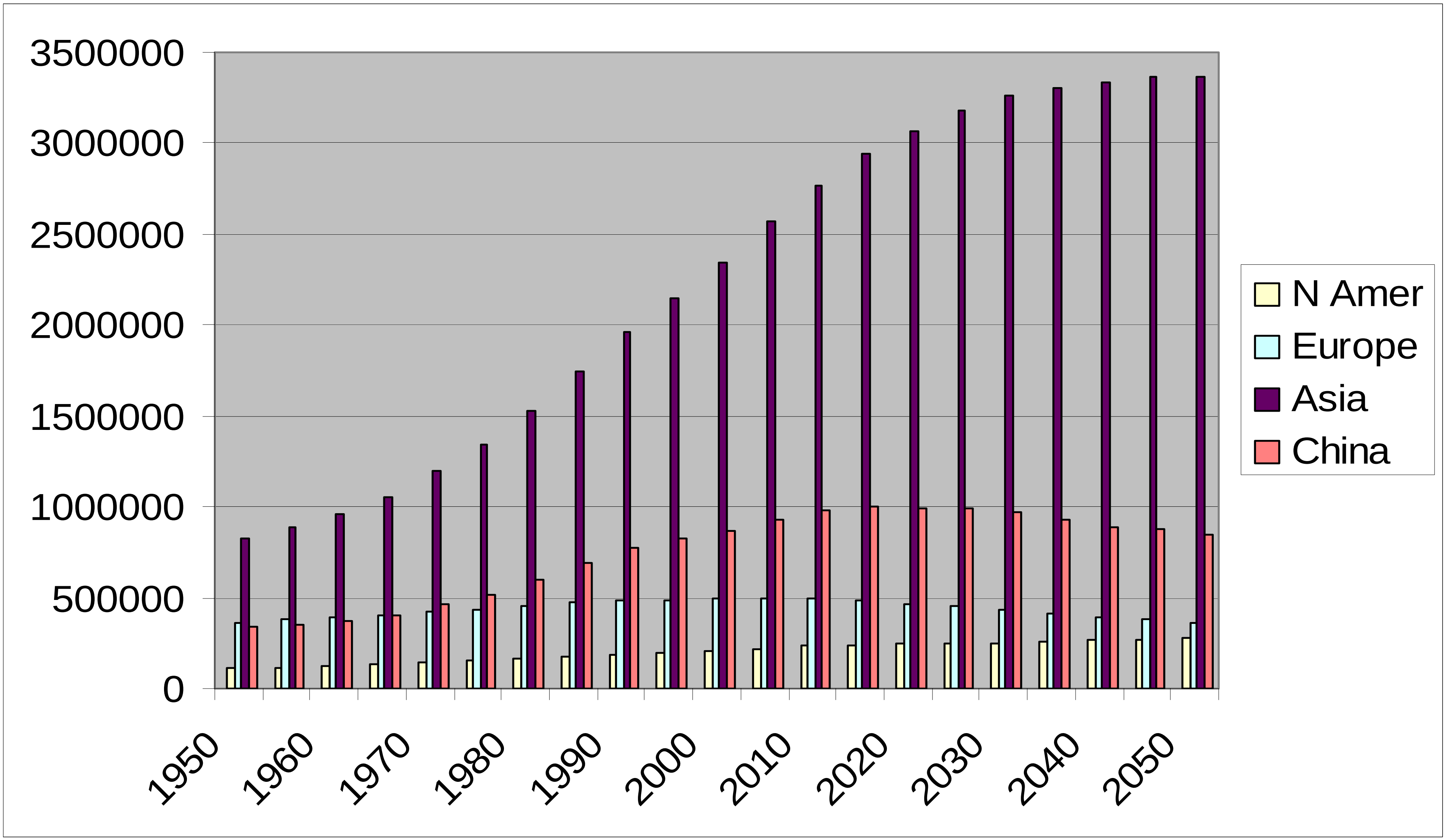
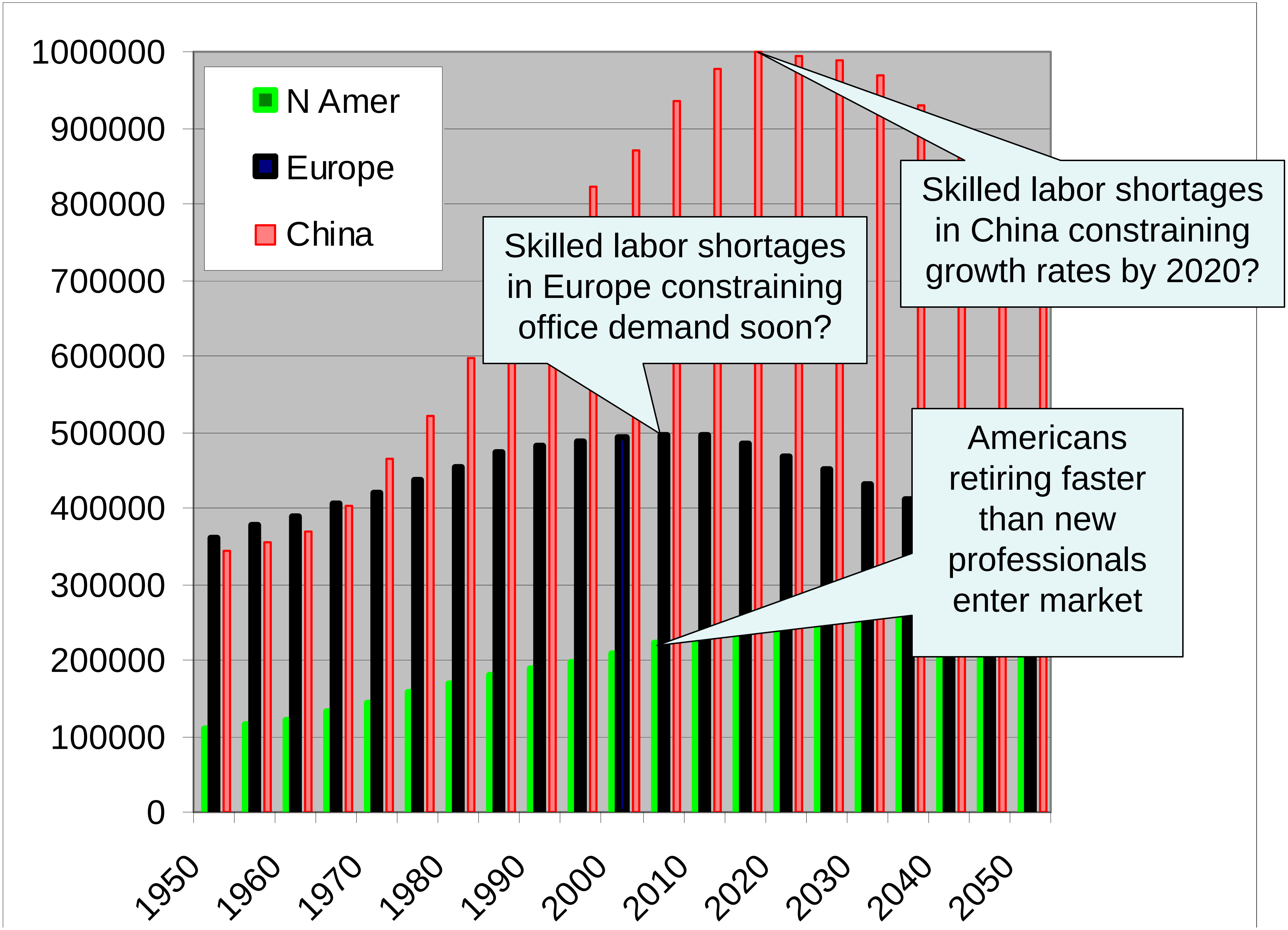


Will population labor force declines constrain office demand?

Brounen & Eicholtz and B. Wheaton suggest that labor will become a problem in some developed countries. UN data
Japan and Singapore recognize this problem, the US should but Bush just legalized about 6 million illegal immigrants.



A closer view of population growth trends



Who looks out to 2020 anyway?

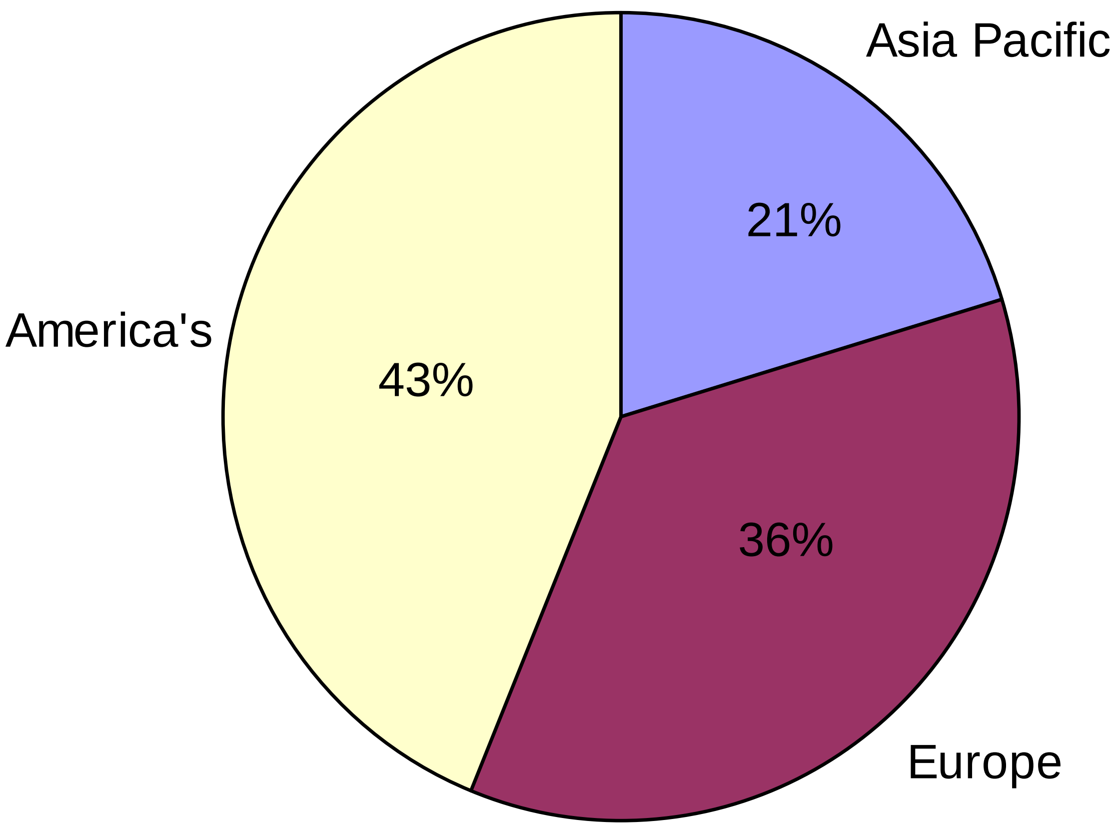
So let's assume you are convinced that there are benefits to international real estate investment.

How about a reality check?

How much investable real estate is out there?

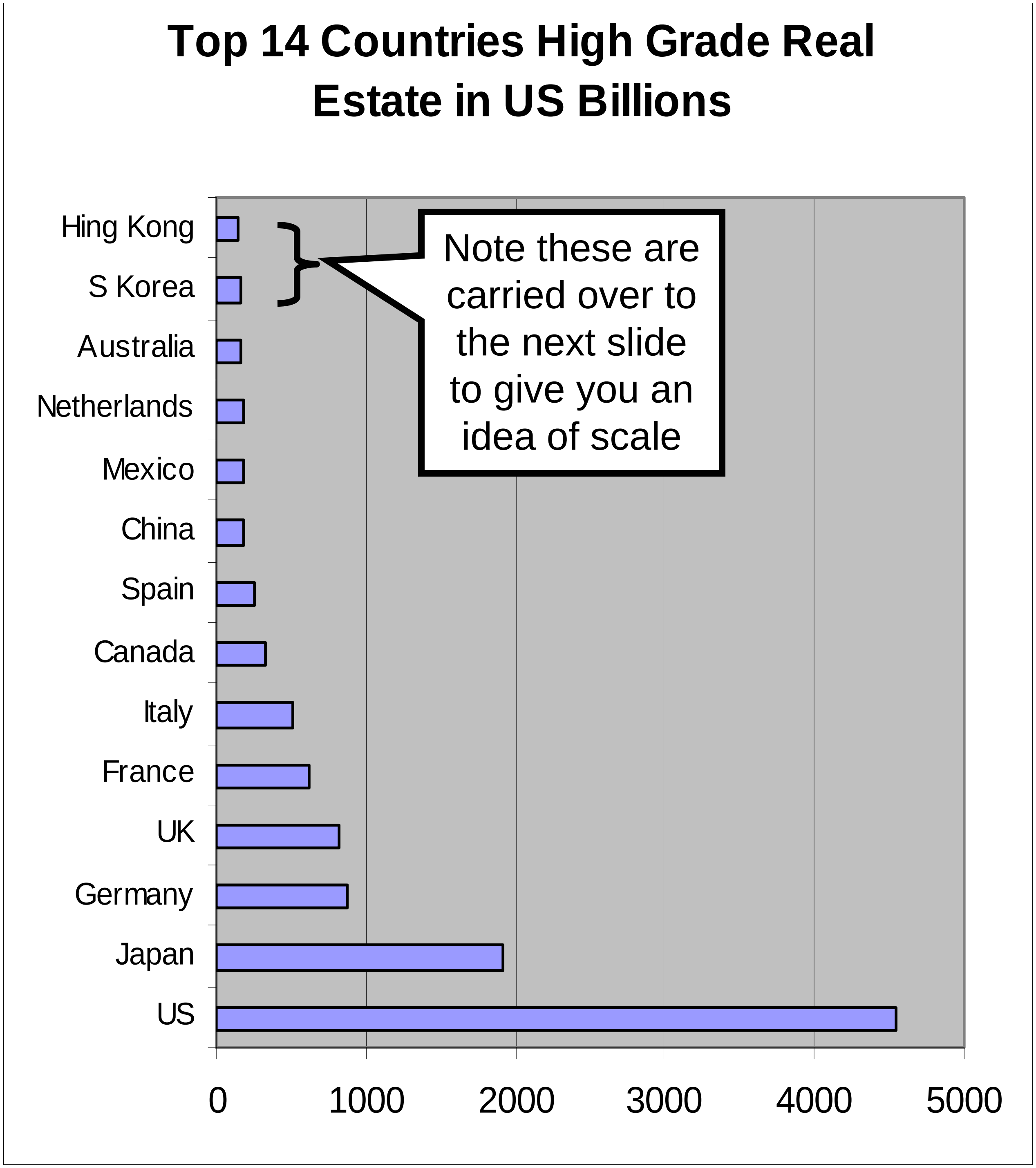
About 5 Trillion in US Dollars by Most Estimates of Core High Grade Property

Or In Yuan = all of them



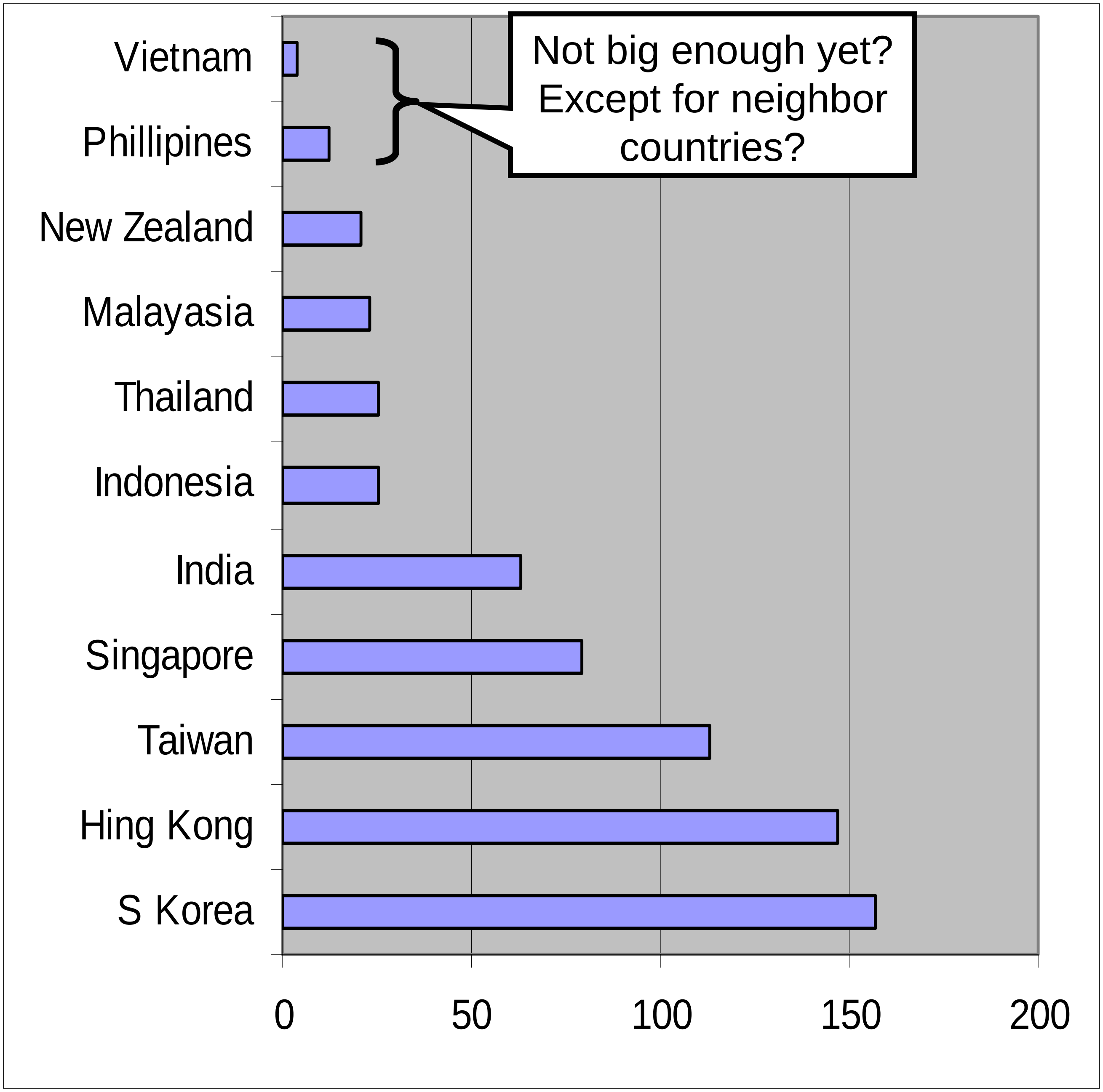
How much is out there in terms of high grade real estate?

From Prudential Real Estate Investors Estimates, 3/2003 See “A Bird’s Eye View of Global Real Estate Markets” by Liang and Gordon



Selected High Grade Asian Real Estate Estimates in US B

From Prudential Real Estate Investors Estimates, 3/2003 See “A Bird’s Eye View of Global Real Estate Markets” by Liang and Gordon



How much indirect securitized real estate is out there ?

- According to Eicholtz & Koedijk and others securitized real estate is a relatively new trend.
  - In the middle 1980's the entire capitalized value of the global RE securities was about $20 B (US)
  - By 1995 this grew to $240 B $US
  - By 1999 this grew to $350 B $US

How much indirect securitized real estate is out there ?

- According to Eicholtz & Koedijk and others securitized real estate is a relatively new trend.
  - Today about $500 B US or about 10% of the total high grade real estate available for investment making diversification possible and easier for a number of investors. Although some estimates of the total securitized portion are as low as 3%. It depends on how we define the denominator or investable portion.

Public or Indirect “Securitized” Real Estate

Which countries offer REITs (Real estate investment trusts) or REIT-like securities?
from www.realestateportfolio.com and Ernst and Young

- US
- Australia
- Belgium
- Brazil
- Canada
- European Union (proposed)
- France
- Germany
- Hong Kong
- Japan
- Korea
- Luxembourg
- Malaysia
- Netherlands
- Puerto Rico
- Singapore
- Spain
- Taiwan
- Turkey
- Others will certainly follow

How Global Are We in Terms of the Typical Real Estate Portfolio Allocation to Real Estate?

- The Global Average allocation within RE is less than 3%
- The winner?
  - The Netherlands at 12.5%
- But what happens if the major pension funds and mutual funds started going global? Is there enough?

Perspectives from the Largest US Pension Fund: Calpers (Cal Public Employees Retirement System)

- CALPERS has $160 Billion in assets and a 9% real estate target recently increased from 8%, that is 1.6 B more. This means $14.4 B allocated to real estate. That's more than half the high grade real estate available in all of Thailand.

- They now have $30 million in international and want more.

What would happen if US mutual funds (over $7 Trillion) and pension funds (over $5 Trillion) increased actual RE allocations from about 3% today to 10%?

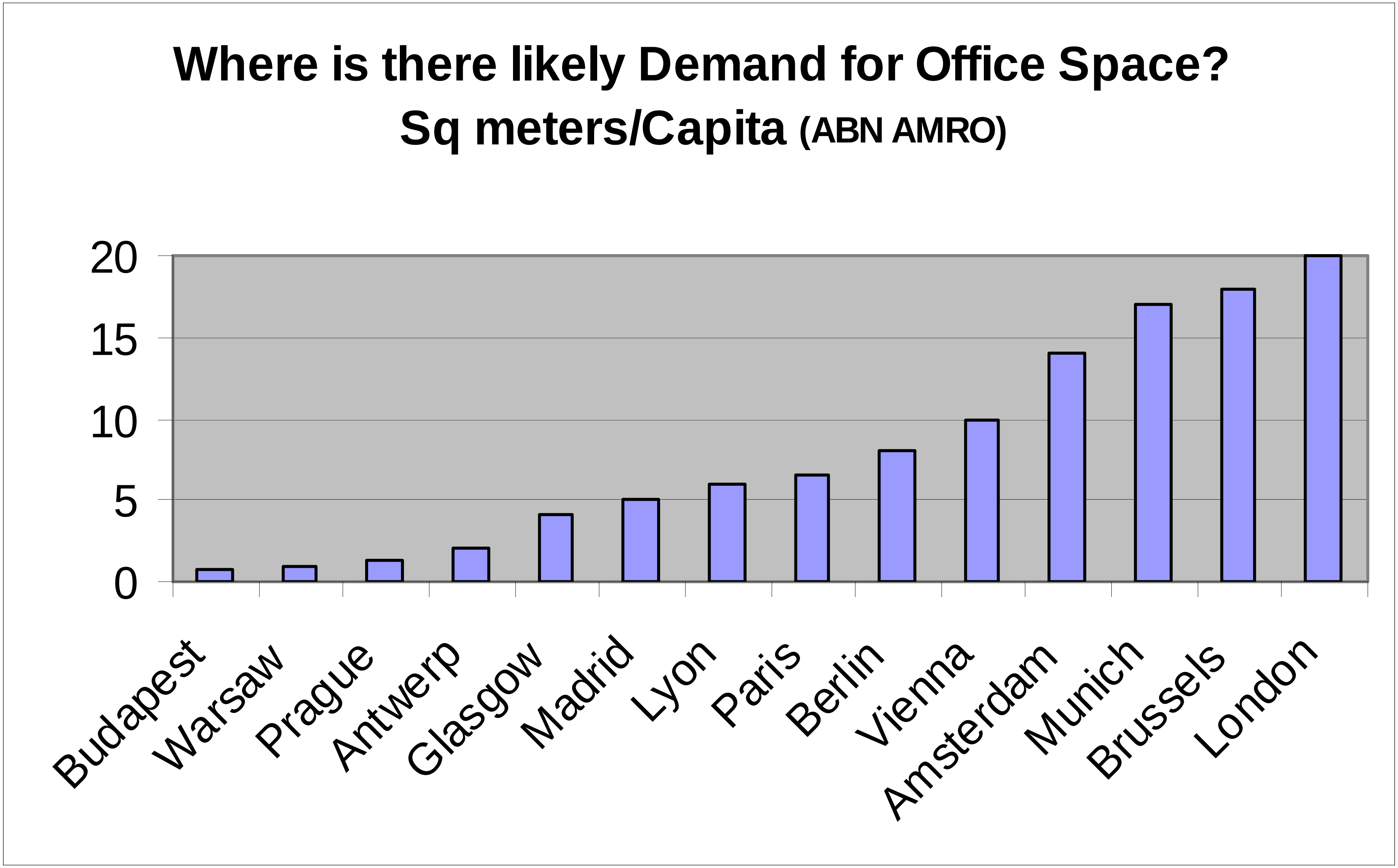
- 10% is over 1.2 trillion dollars which explains why they must own direct real estate.
- Just 6% of this is 720 Billion, equal to more than all the securitized real estate in the world as of 2003 or roughly 3.6 times the US REITs total cap value.
- Moving towards 15% is possible (as suggested by most academics, Hoesli etc.) but it will take many years to provide the public vehicles and sufficient international funds with the necessary expertise and global reach.

But what if you were a Singapore Pension Fund?

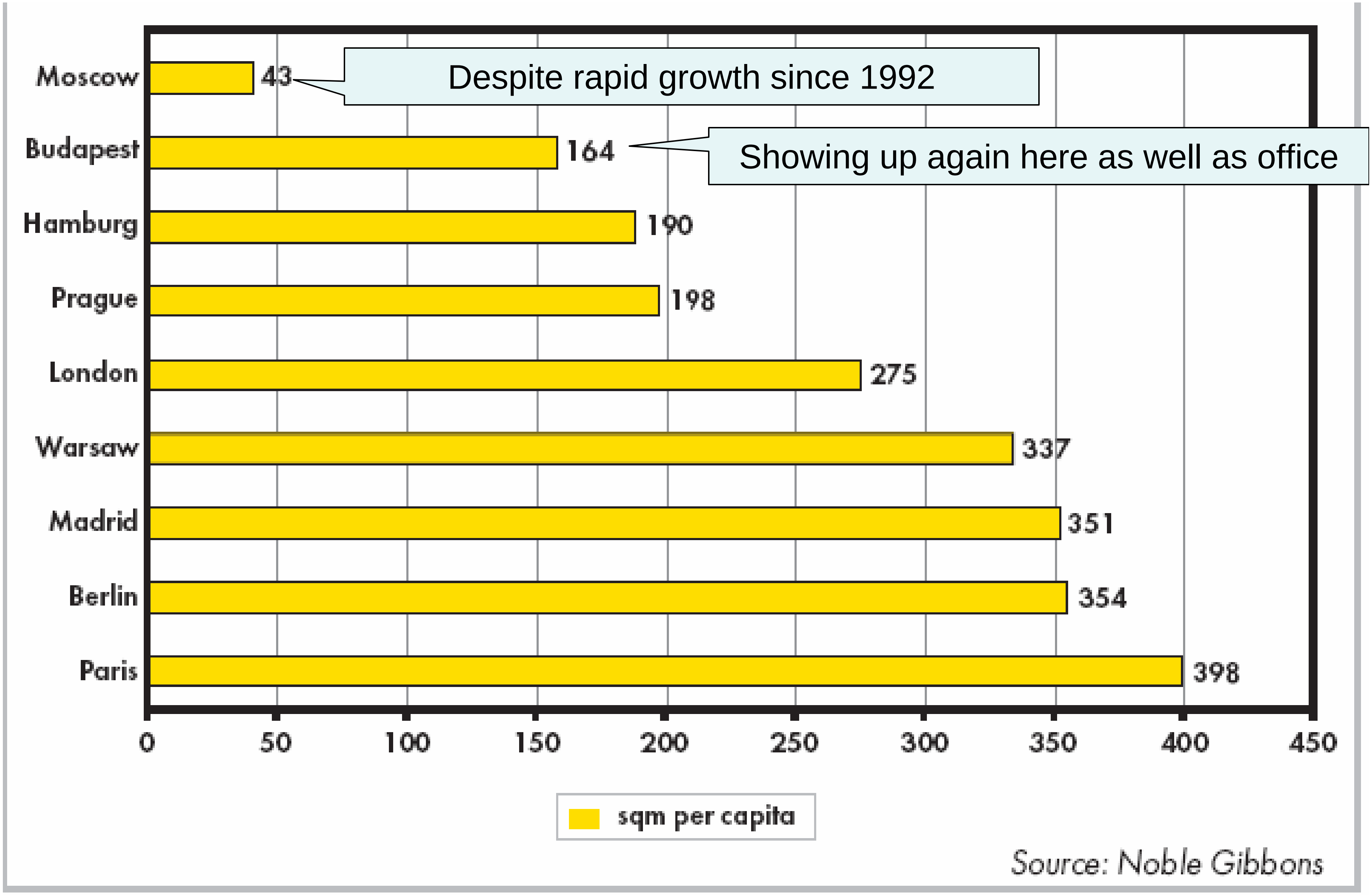
- No Problem- unless you are really big…
- You can easily diversify and invest anywhere, but it takes a large amount of money to go direct and be able to diversify so indirect probably still makes the most sense.
- So large investors must go direct and indirect and small investors should probably go indirect or join in a commingled fund with others as they lack enough scale to make it worth ramping up an investment program abroad on their own.
- But where?

Investing By Picking the Right Cities

Selecting Cities on the Basis of Demand/Supply, i.e.



Supply Shortages in Retail Space



Or noting the loss of white collar service jobs in America

- One countries loss is another's gain.
- The internet and communication technology has meant the death of distance for firms like IBM, Microsoft, many Banks and Airline support staff
- Economics teaches us that when there seems to be a negative trend somewhere there will also be a positive somewhere else.

- According to A.T. Kearney the USA is losing 500,000 jobs a year right now to China, India, Russia, and the Czech Republic. That suggests new office demand in these markets.

Rising Urban Stars: Future Winners?

From: Jones Lang LaSalle, May, 2003

- Conclusions of study:
  - This will be the Asian Century
  - Quality of life will start to drive business location decisions more as retaining labor becomes harder
  - Cities will work at improving cultural activities and brand
  - Technology will still matter
  - Past decade winners: Dubai, Dublin and Las Vegas

Future City Winners

Technology	Environment	Economy
Austin, TX, USA	Barcelona, Spain (not based on productivity)	Beijing, China
Helsinki, Finland	Cape Town, South Africa	Delhi and Mumbai, India
Raleigh-Durham, NC, USA	SE Queensland (Brisbane), Australia	Guangzhou and Shenzhen, China
Bangalore, India Budapest, Hungary	Calgary, Canada	Santiago, Chile
Dalian, Suzhou both of China	Copenhagen, Denmark	Shanghai, China
Tallinn, Estonia San Jose, Costa Rica	Porto Alegre, Brazil	Chongqing, Xian, China

If we picked the top world cities based on employment and population increases 1991-2001 we would choose:

- Dubai
- Guangzhou
- Las Vegas
- Bombay
- Phoenix
- Istanbul
- Atlanta
- Delhi
- Raleigh
- Singapore
- Dublin
- Tampa
- But remember you can mess up anywhere and you must account for supply elasticity

Investing By Picking the Right Countries

- Assuming you are allowed to “own” in foreign countries.
- You must consider currency risks, taxation, corruption and property rights enforcement, local rule nuances (lease tenant rights or residential squatter rights) and local liquidity, and brokerage costs all in addition to normal fundamentals of demand and supply trends, assuming there is market information (transparency).
- Perhaps work ethic and productivity?

Currency Risks

- Malaysia, Philipines and Thailand need to develop currency future markets so that hedging becomes possible, otherwise risk premiums of 2% to 4% will be required by foreign investors.
- Finland and Greece also have significant currency risks.
- Least risky markets: US, UK, Australia, and France.

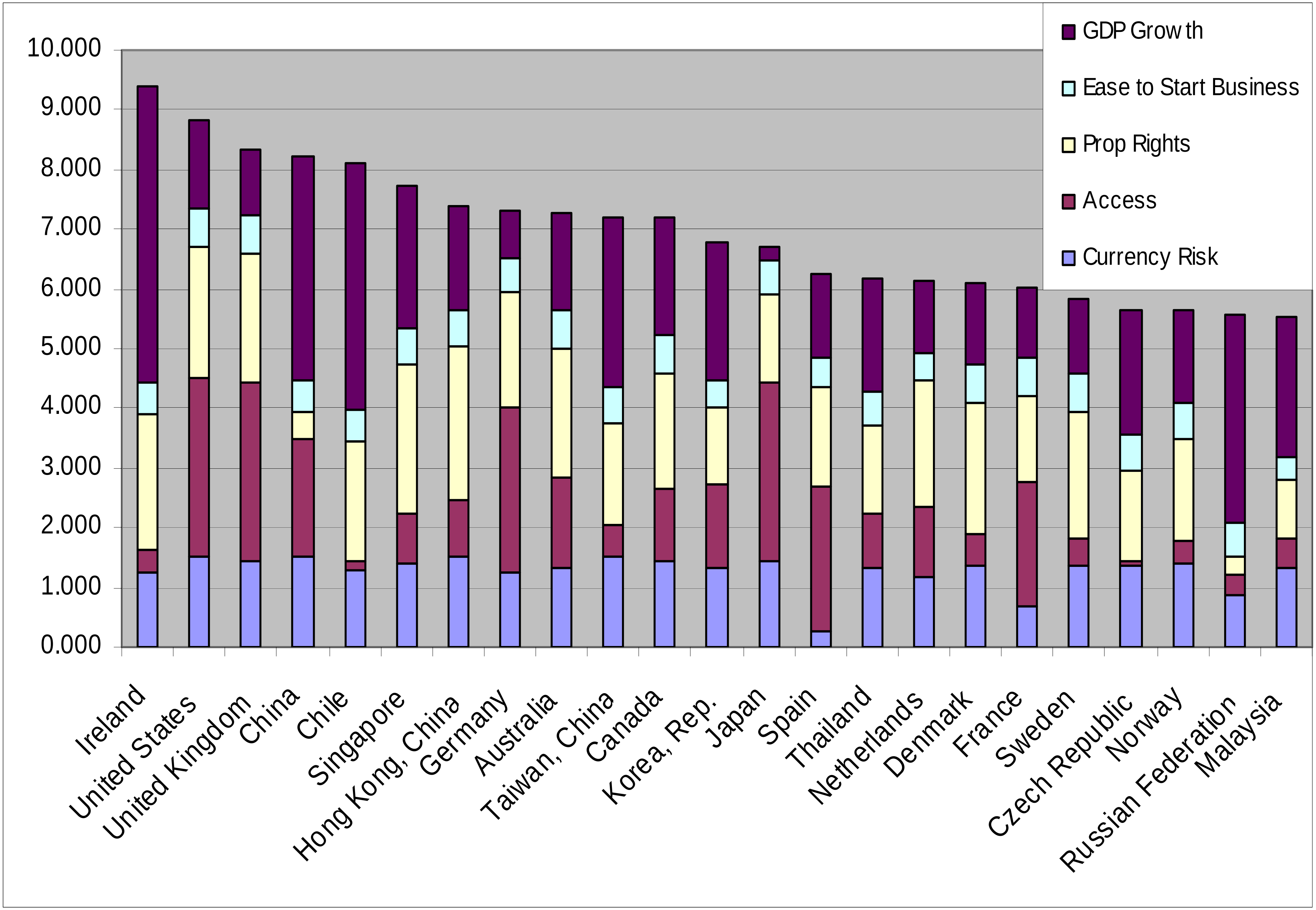
Taxation: watch out for…

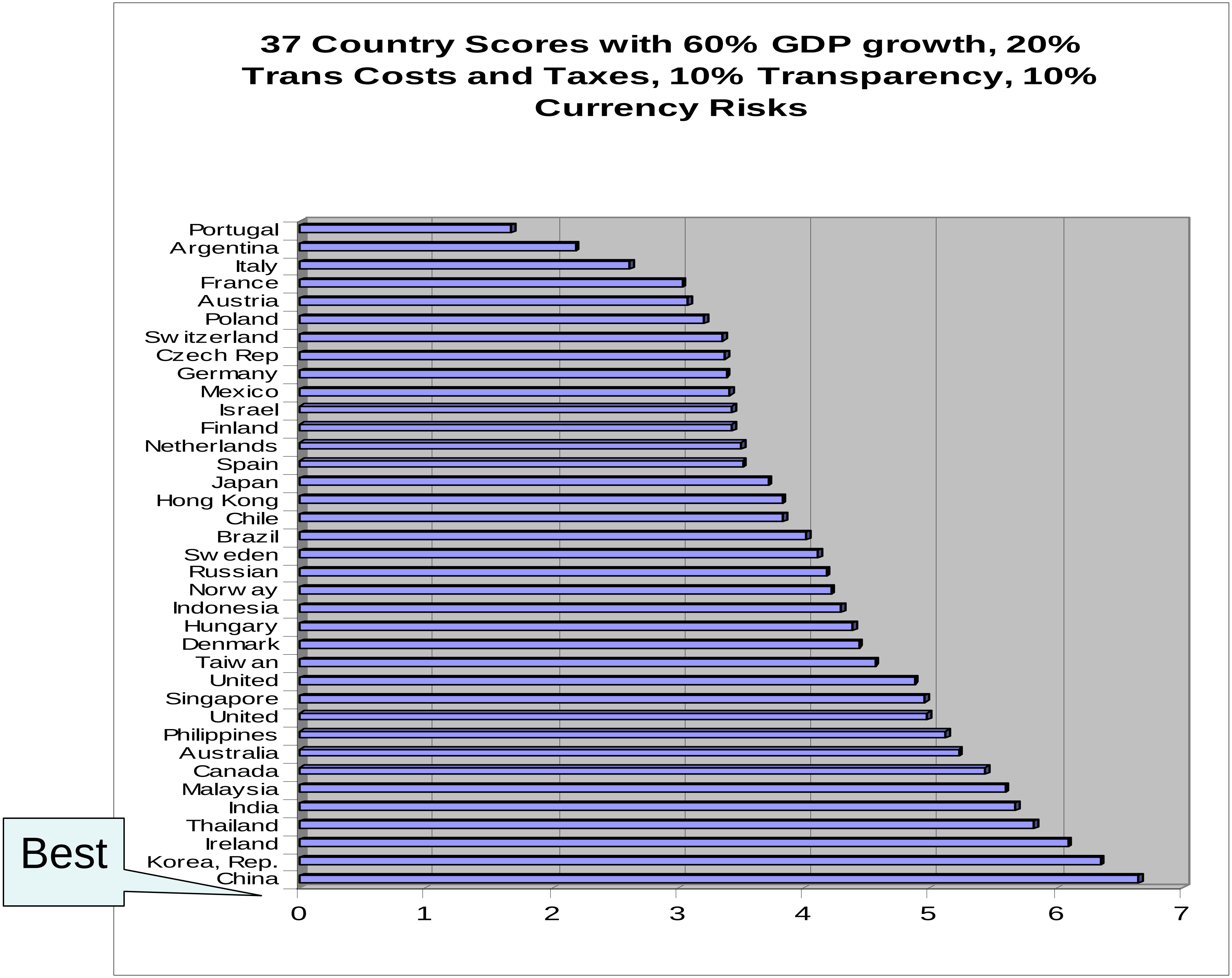
- Annual property tax (typically 1 - 3% of market value per year)
- Ordinary income tax (typically 15 - 30%)
- Capital gains tax (typically 0 – 20%)
- Transfer Tax (0 to 12% range)
- Value Added Tax (0 to 25% range)
- Unexpected Fees (Russia, Ukraine, possibly China and some cities in the USA)

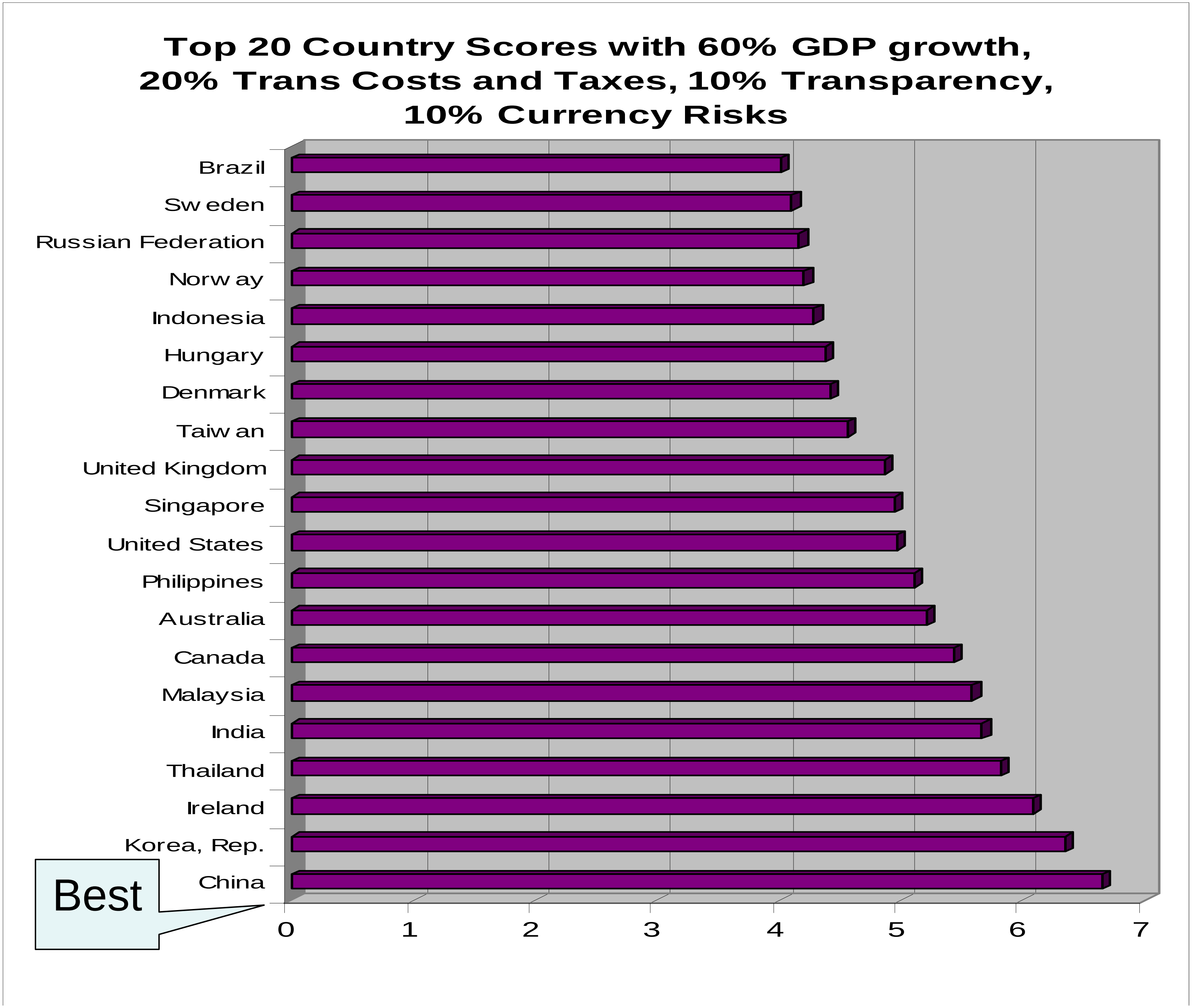
Using the following five criteria equally weighted

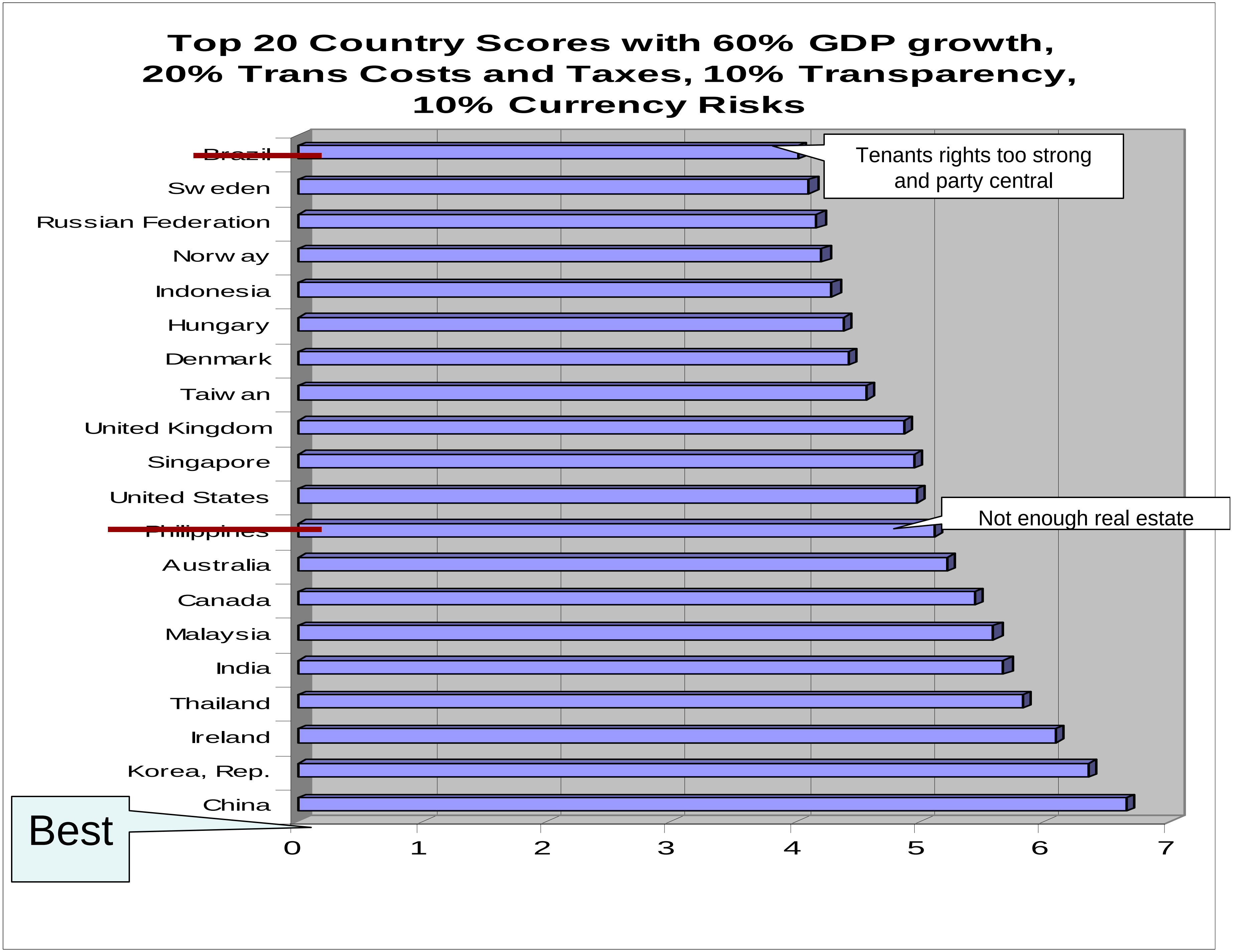
- GDP Growth
- Currency Risk and Taxation
- Property Rights Enforcement
- Ease to Start a Business (Regulation)
- Access (measured by airport boardings)
- We get the following results as to where we should invest…

Top 23 Countries Based on 5 Criteria



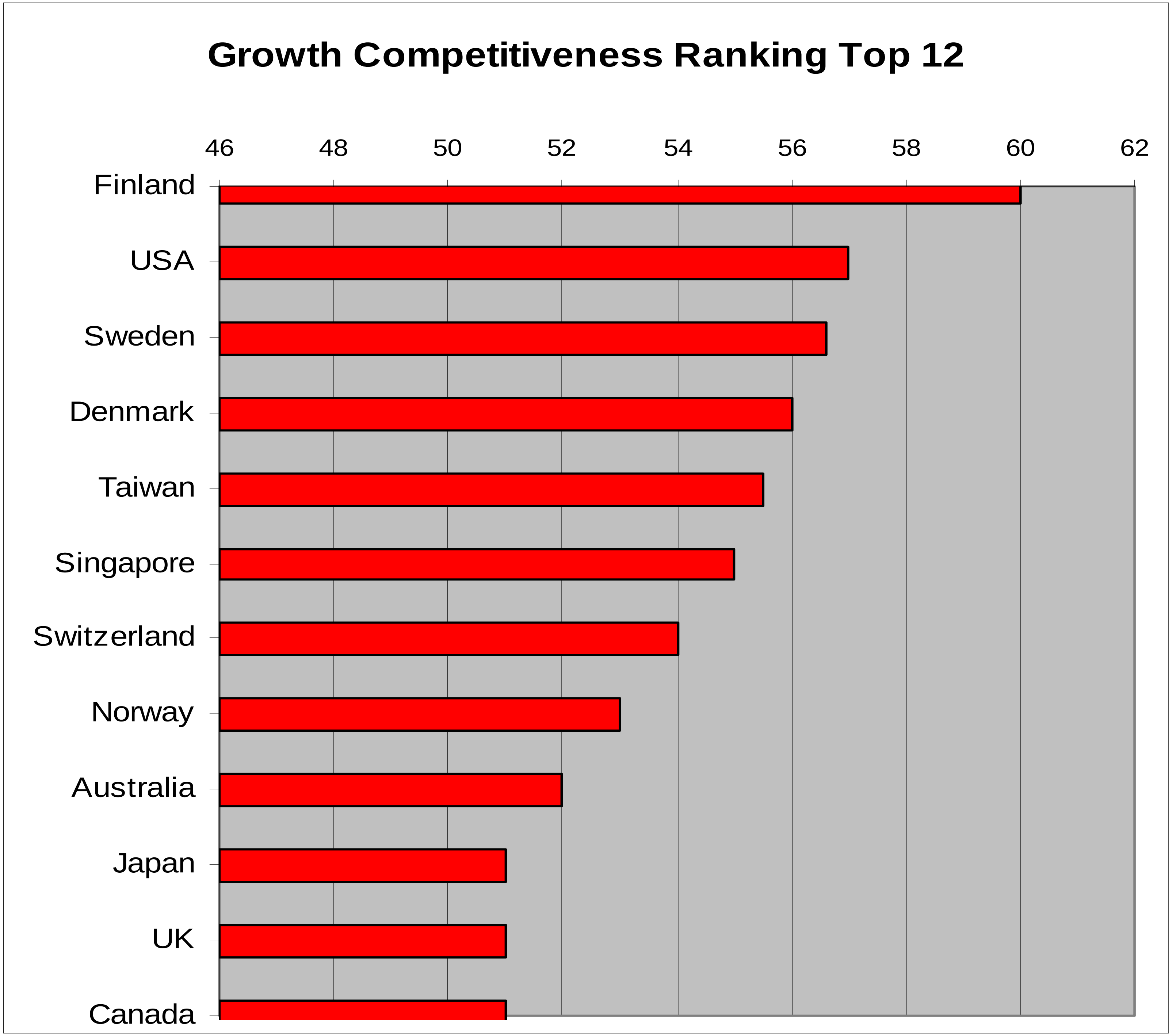

37 Country Scores with 60% GDP growth, 20% Trans Costs and Taxes, 10% Transparency, 10% Currency Risks
Portugal
Argentina
Italy
France
Austria
Poland
Sw itzerland
Czech Rep
Germany
Mexico
Israel
Finland
Netherlands
Spain
Japan
Hong Kong
Chile
Brazil
Sw eden
Russian
Norw ay
Indonesia
Hungary
Denmark
Taiw an
United
Singapore
United
Philippines
Australia
Canada
Malaysia
India
Thailand
Ireland
Korea, Rep.
China
Best
0
1
2
3
4
5
6
7


Top 20 Country Scores with 60% GDP growth, 20% Trans Costs and Taxes, 10% Transparency, 10% Currency Risks
Brazil
Sw eden
Russian Federation
Norw ay
Indonesia
Hungary
Denmark
Taiw an
United Kingdom
Singapore
United States
Philippines
Australia
Canada
Malaysia
India
Thailand
Ireland
Korea, Rep.
China
Best
0
1
2
3
4
5
6
7

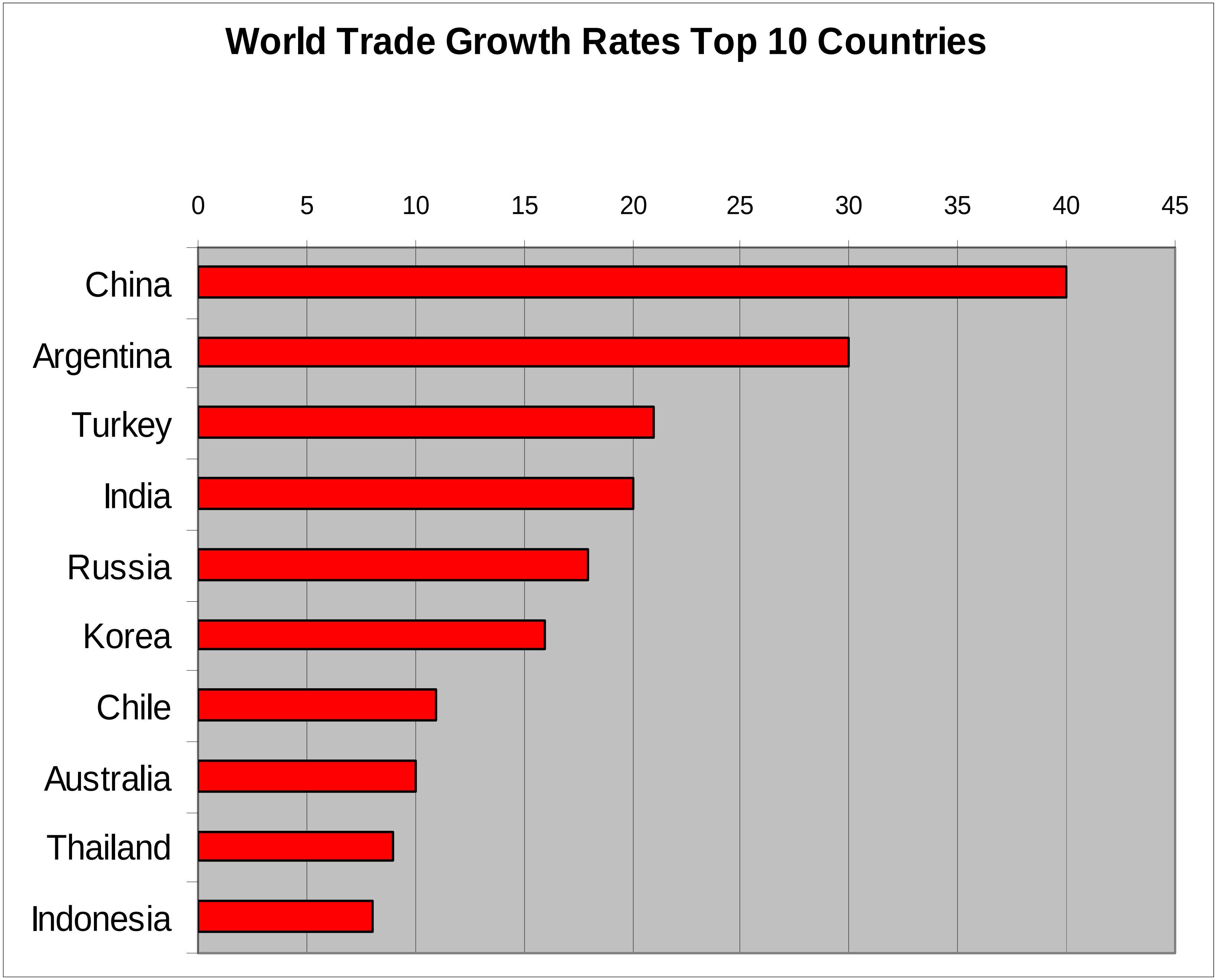

Top 20 Country Scores with 60% GDP growth, 20% Trans Costs and Taxes, 10% Transparency, 10% Currency Risks
Brazil
Sweden
Russian Federation
Norway
Indonesia
Hungary
Denmark
Taiwan
United Kingdom
Singapore
United States
Philippines
Australia
Canada
Malaysia
India
Thailand
Ireland
Korea, Rep.
China
0
1
2
3
4
5
6
7
Tenants rights too strong and party central
Not enough real estate
Best

In the absence of long term objective data explaining direct real estate returns

- We will rely on arbitrary models with arbitrary weights, i.e. we could have used:



Growth Competitiveness Ranking Top 12
46
48
50
52
54
56
58
60
62
Finland
USA
Sweden
Denmark
Taiwan
Singapore
Switzerland
Norway
Australia
Japan
UK
Canada



World Trade Growth Rates Top 10 Countries
0
5
10
15
20
25
30
35
40
45
China
Argentina
Turkey
India
Russia
Korea
Chile
Australia
Thailand
Indonesia

None of these models ….

- Controls for supply responsiveness to demand
- That requires local market knowledge.
- Some markets are very difficult to enter while others are easy, i.e.
  - Las Vegas where every time there is a new job they build three new houses
  - This is a big risk not explicitly modeled by any global advisor

Pragmatic Property Portfolio Perspectives Toward Global Investing

- We need the ability to shift into and out of real estate (or securities) but this requires a global manager who has discretion over such decisions.
- We are specialists – even those of us in academia. We get our allocation and try to keep it.
- We specialize and we should, i.e.
  - Retail: just follow winners like Walmart, Ikea etc
  - For Residential, office and industrial scale matters and experience so go into more difficult under served markets with trusted local partners.

Developing Trusted Relationships

- A prerequisite to local foreign direct investment.
- It makes no sense to go in and start from scratch a new business but rather to develop partnerships.
- Subordinated contracts with preferred returns make the most sense
  - Master leases (shift leasing and management)
  - Participating mortgages (equity like but without true ownership)

Summary 1 of 3

- The world is somewhat different since 1992 for American REITS and for Western Europe with the EU (1992) and EU currency (2002). It is also different since 1989 in the old Soviet block countries.
- Any yield at all would be good for Japanese Investors
- A modest increase in pension fund allocations to international real estate, especially from the US, could quickly overwhelm the market.
- Real estate has garnered increased investor interest recently
  - Aging population
  - A modest real estate allocation pays a disproportionate share of current liabilities for pension funds

Summary 2 of 3

- Strategic investors that want to be able to re-balance or move in and out of markets will prefer securitized forms of real estate. This requires the liquidity of a securitized vehicle.
- Countries that wish to increase foreign investment must develop indirect or securitized vehicles and encourage greater penetration into core property segments. There is an important role for governments to play in helping these markets evolve.
- For smaller investors securities are the only reasonable way to diversify internationally.

Summary 3 of 3

- For the largest investors indirect and direct is still necessary for achieving minimum diversification objectives.
- No investment advisor nor academic has a very reliable forward looking model that spans the globe as no one is able to forecast supply reaction to demand without local knowledge.

Conclusions

- There will always be global opportunities in specialized sectors.
  - You can still do well in weak markets and make big mistakes in strong markets.

A final personal note

- Look how global we are today….

ขอบคุณครับ

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- http://www.fiabci.com/

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Asian Public Properties Country Sample Listings from GPR

- China (none) except through Hong Kong
- Amoy Properties Limited
  Cheung Kong (Holdings) Limited
  China Overseas Land & Investment Limited
  Chinese Estates
  Dickson Group Holdings Ltd.
  Emperor Group Homepage
  Great Eagle
  Hang Lung Group
  Henderson Land
  HKR International
  Hon Kwok Land Investment Company, Limited
  Hongkong Land Limited
  Hysan Development Company Limited
  Kerry Properties Limited
  Lai Sun Group
  New World Development
  Sino Group
  Sun Hung Kai Properties Ltd.
  Tai Cheung Holdings
  The Wharf (Holdings) Limited
  Tian An China Investment Company Ltd.
- Taiwan
  - Derlee
    Sinyi Realty
  - Ciputra
- Japan (many)
- Singapore
  - Allgreen Properties Limited
  - A-REIT
  - CapitaLand Limited
  - CapitaMall Trust
  - Centrepoint Home Page
  - City Developments Limited
  - First Capital Corporation
  - Hong Fok Corporation Limited
  - Keppel Land Limited
  - MCL Land
  - Orchard Properties
  - The Ascott Limited
  - United Overseas Land Limited
  - WingTai Holdings
- Thailand
  - Goldenland Public Company Limited
  - Q-Homes
  - Sansiri Public Company limited
- Malaysia
  - Country Heights
  - Hong Leong Group Malaysia
  - IOI Properties
- Indonesia
  - Ciputra