International Property Investment Trends

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European Cross Border Investment by Origin of Funds

Source: DTZ, *Estimates
**German Open Ended Funds**
- Record Inflows
  - Excludes the inflows into the special funds

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Inflows into German Open Ended Funds

**Increased allocation to real estate by fund institutions**
- Increased/planning to increase their real estate allocation in portfolios
- Added real estate to their asset mixes.
Cumulative Real Estate Opportunistic Funds Raised in the US

Source: E&Y 2003 Opportunistic Fund Survey
Reasons for the Rise in Global Real Estate Activity

- Growth in organized savings
- Poor equity market performance
- Diminished domestic opportunities
- Structural changes
- Growth of service providers / fund managers
- Widening range of products
- Expansion of REITs
- Improved research
### Equities Vs Public Real Estate

<table>
<thead>
<tr>
<th>Region</th>
<th>Annualized Returns to 30 September 2003 (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1-year</td>
</tr>
<tr>
<td>Global GPR Index</td>
<td>29.9%</td>
</tr>
<tr>
<td>Morgan Stanley World Free Return Index</td>
<td>26.8%</td>
</tr>
</tbody>
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Source: Bloomberg
Figure 1  Cross-Border Acquisitions of European Real Estate

* Estimate
Source: DTZ Research
Examples of Product Types

- Industrial / Logistics Distribution Centres
- Retail
- Hotels
- Distressed Debt
- Mezzanine Debt
- Central European
- Corporate Restructuring
Expansion of REIT markets over recent years

- Increased liquidity
- Increased choice and access
- No property management
- Lower transaction costs
- New REIT markets
- Future REIT markets
Modes of Investment

Directly
- Direct property acquisition
- Development

Indirectly
- Funds
- Public or Private Securities
- Mezzanine Debt
- Distressed Debt / Non-performing Loans
Where to invest?

- Asset allocation
  - Top down approach based on forecast risk return analysis
  - Does not reflect practical issues

Objective of the investor

- Short Term Player
  - 3-5 year time frame
  - More tactical
  - Sufficient market depth and liquidity
  - High risk and high return
  - Opportunity funds

- Long Term Player
  - 10-20 year time frame
  - More strategic
  - Identify the future winners and losers
  - Supernormal profits from first entrant advantage
  - No ‘Long-Term’ strategic funds
World Winning Cities

Source: JLL
Implementation Issues

- **Investment**
  - Asset allocation strategy
  - Ownership
  - Legal and political risks
  - Taxation
  - Currency Risks
  - Hurdle Rate

- **Access**
  - Dominance of local players
  - Lack of local market expertise
  - Language / cultural barriers
  - Limited availability of quality investment products
  - Lack of market transparency

- **Operations**
  - Different lease structures
  - Higher due diligence costs
  - Asset management problems