

Implementing International Real Estate Investments

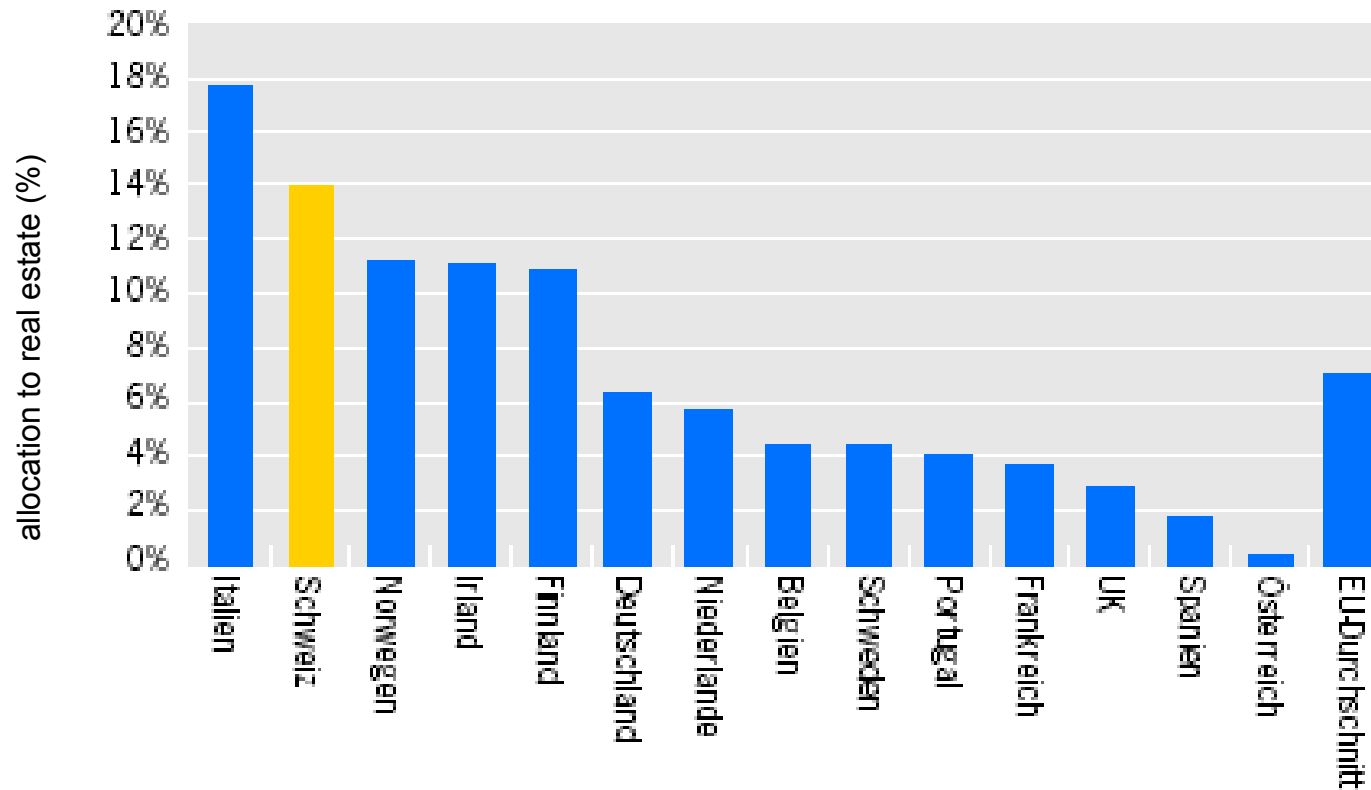
European Pension Fund Investment Forum

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PPCmetrics AG
Zurich, 16 June 2005

- International Real Estate in Swiss Pension Fund Portfolios
- Key Investment Decisions and Implementation Issues
- Listed vs. Non-listed Real Estate
- Structuring Non-listed Real Estate Portfolios
- Product Selection

Real Estate in Swiss Pension Fund Portfolios? (1)

- Real estate is an important asset class!



Source: Schweizer Personalvorsorge (11- 04)

Real Estate in Swiss Pension Fund Portfolios? (2)

- However, only few Swiss Pension Funds have invested internationally
 - ⇒ Only 0.5% of the total of 13.6% is invested internationally (2003)!

- If so, they have in general invested in public real estate securities
- But remember:

International diversification in bonds and equities took also a while to take off

- Since the 70's in the Netherlands and the UK
- Since the 90's in Switzerland

⇒ International real estate still a new territory for a majority of Swiss Pension Funds and thus an asset class with growth potential!

By the Way: What are the Legal Restrictions?

- Maximum limit for real estate: 50%
 - Maximum limit for international real estate: 5%
- ⇒ However, by making use of art. 59 these limits can be exceeded (⇒ Asset-Liability-Study!)

Key Investment Decisions

Decision

Criteria

What allocation?

How much real estate?
Geographical allocation?

Asset-Liability-Management,
real estate investment policy

What involvement?

Direct vs. indirect investment?

Management capacity,
know how,
Diversification, etc.

What instrument?

Inv. foundation, inv. fund, listed/non-listed
fund, etc.?

Risk/return characteristics, liquidity,
volume, taxes, corporate governance,
available products, etc.

What product/vehicle?

Due Diligence: economic and legal

Key Implementation Issues

- Geographic allocation CH / USA / Europe / Asia
- Sector allocation Office, retail, industrial, etc.
- Risk/return characteristics Stable income yield and/or capital appreciation
⇒ Core up to opportunistic
- Product Characteristics:
Listed/Non-listed
Closed-end/Open-end
Taxes
Liquidity
Involvement

⇒ **Need for a real estate investment policy!**

What Instruments do Swiss Investors Use?

- Sample of 63 institutional investors (multiple answers possible):

listed real estate fund	33
real estate investment foundation	33
stocks of listed real estate companies	32
stocks of non-listed real estate companies	7
non-listed real estate fund	5
REIT's	4
Limited Partnerships	3
Corporate Bonds from real estate companies	1
Opportunity Funds	1

Source: Immo-Survey 2002: „Das Anlageverhalten institutioneller Immobilieninvestoren“

Listed vs. Non-listed International Real Estate Investments: Some Thoughts (1)

- Do you expect the risk/return characteristics to be as close as possible to the ones of direct investments?
- Do you plan to invest internationally to
 - diversify
 - and ?
 - increase the liquidity of your real estate portfolio
- Tax implications?

Listed vs. Non-listed International Real Estate Investments: Some Thoughts (2)

- Do you expect the risk/return characteristics to be as close as possible to the ones of direct investments?
- Do you plan to invest internationally?
 - diversify
 - and ?
 - increase the liquidity of your real estate
- Tax implications?

Private Real Estate

Listed Real Estate

- Global vs. regional mandates
 - Investment style: active vs. passive
 - Benchmark
 - Product(s) / Manager(s)
- ⇒ Implementation standard and straight-forward
- ⇒ However: most markets trade at a premium!

- Geographic Allocation
- Sector Allocation
- Benchmarks
- Investment style: core – opportunistic
- Vehicle (⇒ taxes)
- Structuring (⇒ how to combine products)

The European Real Estate Market (1)

EUR Mrd.	Gesamtwert Immobilienmarkt Quelle: IPD		Zugänglich für institutionelle Investoren Quelle: IPD		Zugänglich für institutionelle Investoren Quelle: DTZ	
Deutschland	30%	7'109	28%	819	23%	1'006
UK	21%	5'054	21%	625	16%	711
Frankreich	20%	4'864	21%	604	16%	690
Spanien	10%	2'401	9%	273	8%	333
Niederlande	6%	1'467	6%	180	5%	200
Schweden	2%	552	4%	104	3%	110
Norwegen	3%	632	3%	83	2%	76
Dänemark	3%	612	3%	76	2%	80
Finland	2%	464	2%	55	1%	64
Irland	2%	432	2%	55	1%	56
Portugal	2%	430	2%	45	1%	64
Österreich	na	na	na	na	2%	104
Belgien	na	na	na	na	3%	135
Griechenland	na	na	na	na	1%	63
Luxembourg	na	na	na	na	0%	12
Italien	na	na	na	na	15%	640
Total	100%	24'017	100%	2'919	100%	4'344

Quellen: IPD / INREV European Property Investment Conference 2004, DTZ 2004, eigene Berechnungen

The European Real Estate Market (2)

	Büros	Einzelhandel	Wohnungen	Logistik	Übrige
Deutschland	60%	10%	13%	0%	17%
UK	35%	47%	0%	15%	3%
Frankreich	54%	11%	25%	5%	5%
Spanien	48%	38%	7%	5%	2%
Niederlande	27%	24%	43%	2%	4%
Schweden	69%	8%	14%	5%	4%
Norwegen	68%	21%	1%	0%	10%
Dänemark	61%	12%	21%	0%	6%
Finland	55%	20%	13%	3%	9%
Irland	58%	30%	0%	12%	0%
Portugal	33%	49%	11%	7%	0%
Italien	na	na	na	na	na
Durchschnitt	50%	23%	14%	5%	8%

Quelle: Eigene Berechnungen auf der Basis von IPD, IPE September 2003.

- Diversify across the most important real estate markets and sectors
- Determine a benchmark allocation with large bandwidth, e.g. with target allocations to
 - the UK
 - Continental Europe
 - Scandinavia and – if desired –
 - CEE
- Effective allocation relative to benchmark depends also on availability of products!

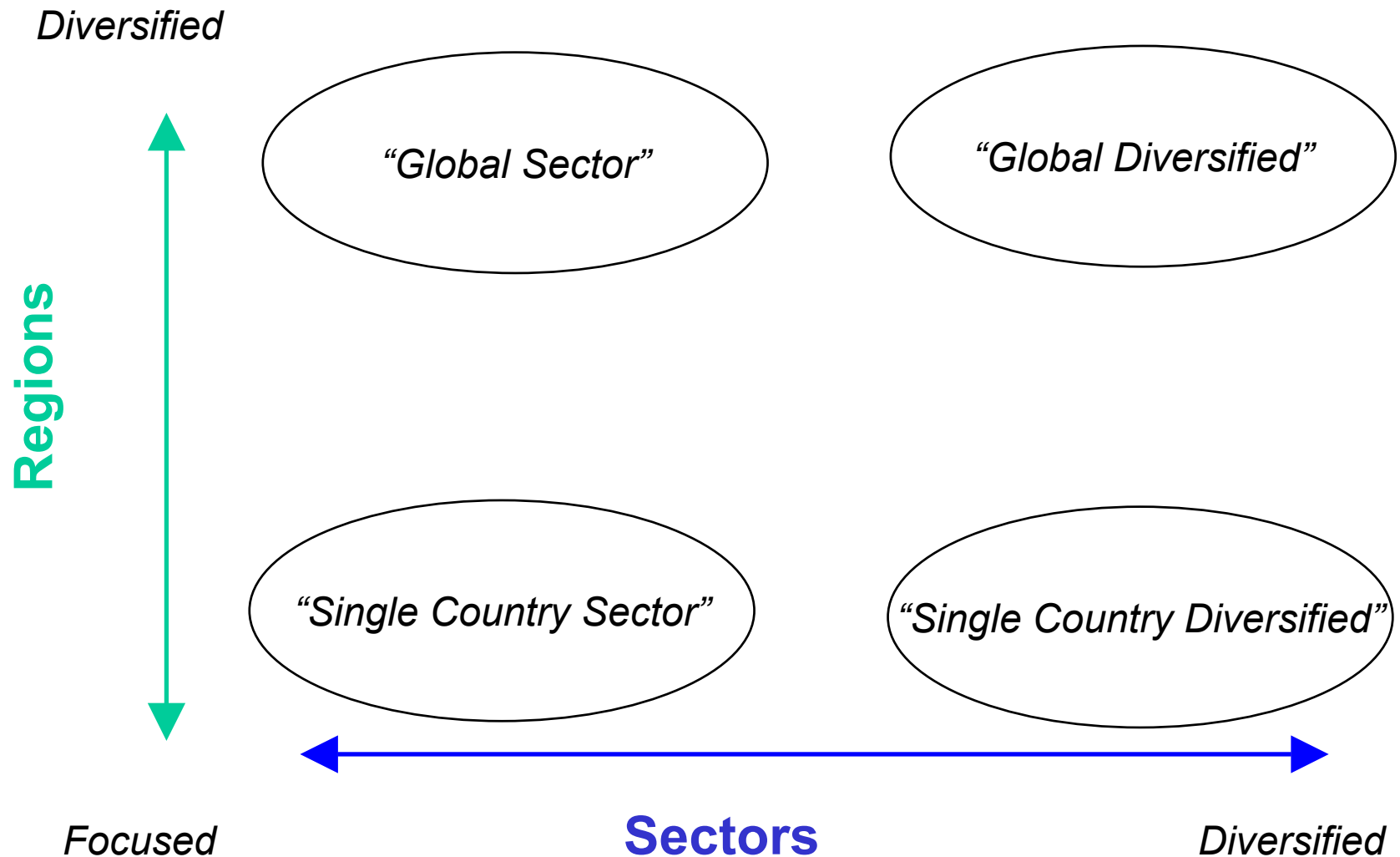
Possible Target Allocation: US

	Target Allocation (NCREIF)	Bandwidth
East	32%	22% - 42%
Midwest	13%	3% - 23%
South	20%	10% - 30%
West	35%	25% - 45%

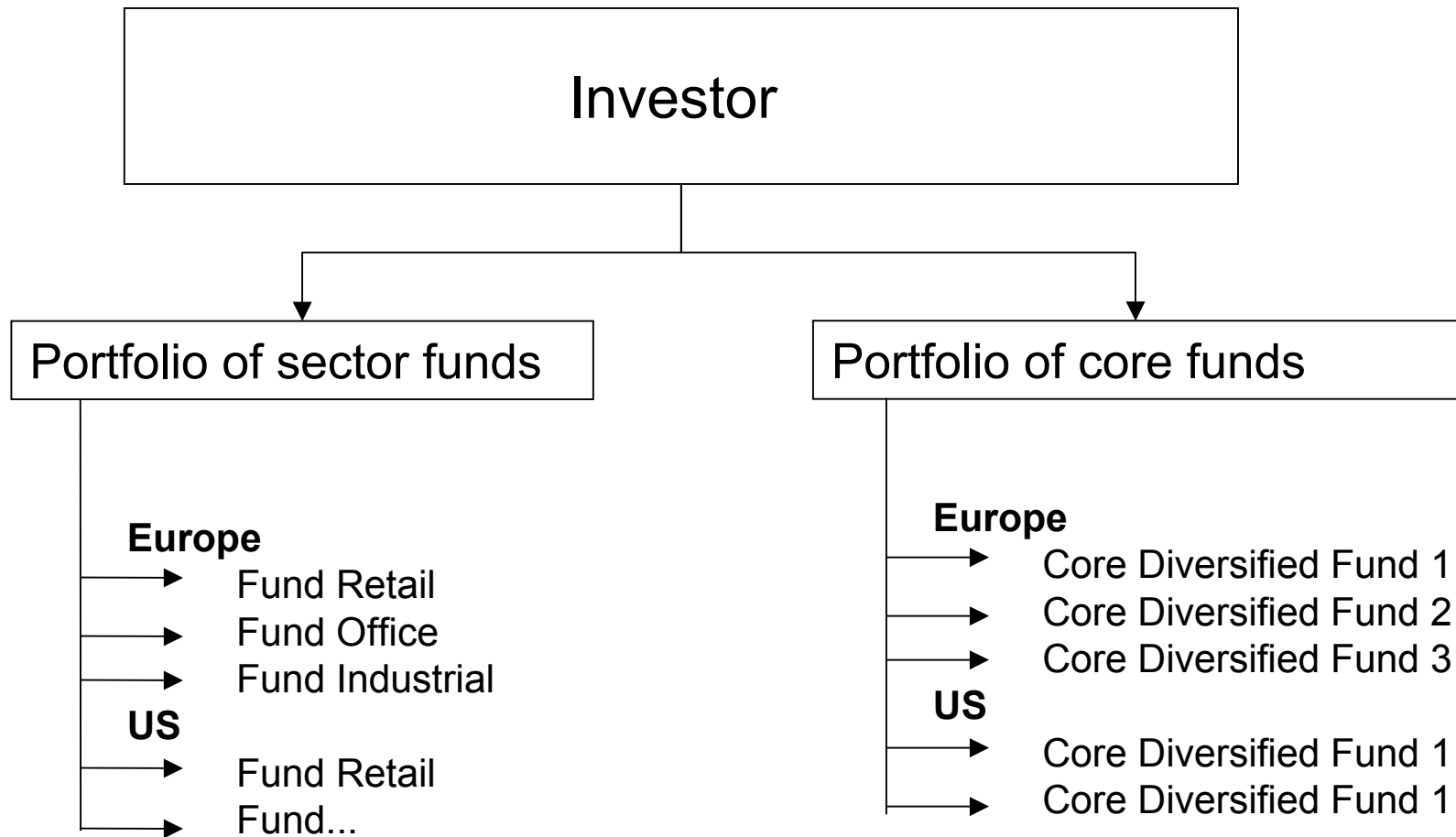
	Target Allocation NCREIF	Bandwidth
Apartments	19%	9% - 29%
Office	37%	27% - 47%
Industrial / R&D	19%	9% - 29%
Retail	23%	13% - 33%
Hotel	2%	0% - 12%

Quelle: NCREIF
(November 2004)

Structuring Non-listed Real Estate Portfolios (1)



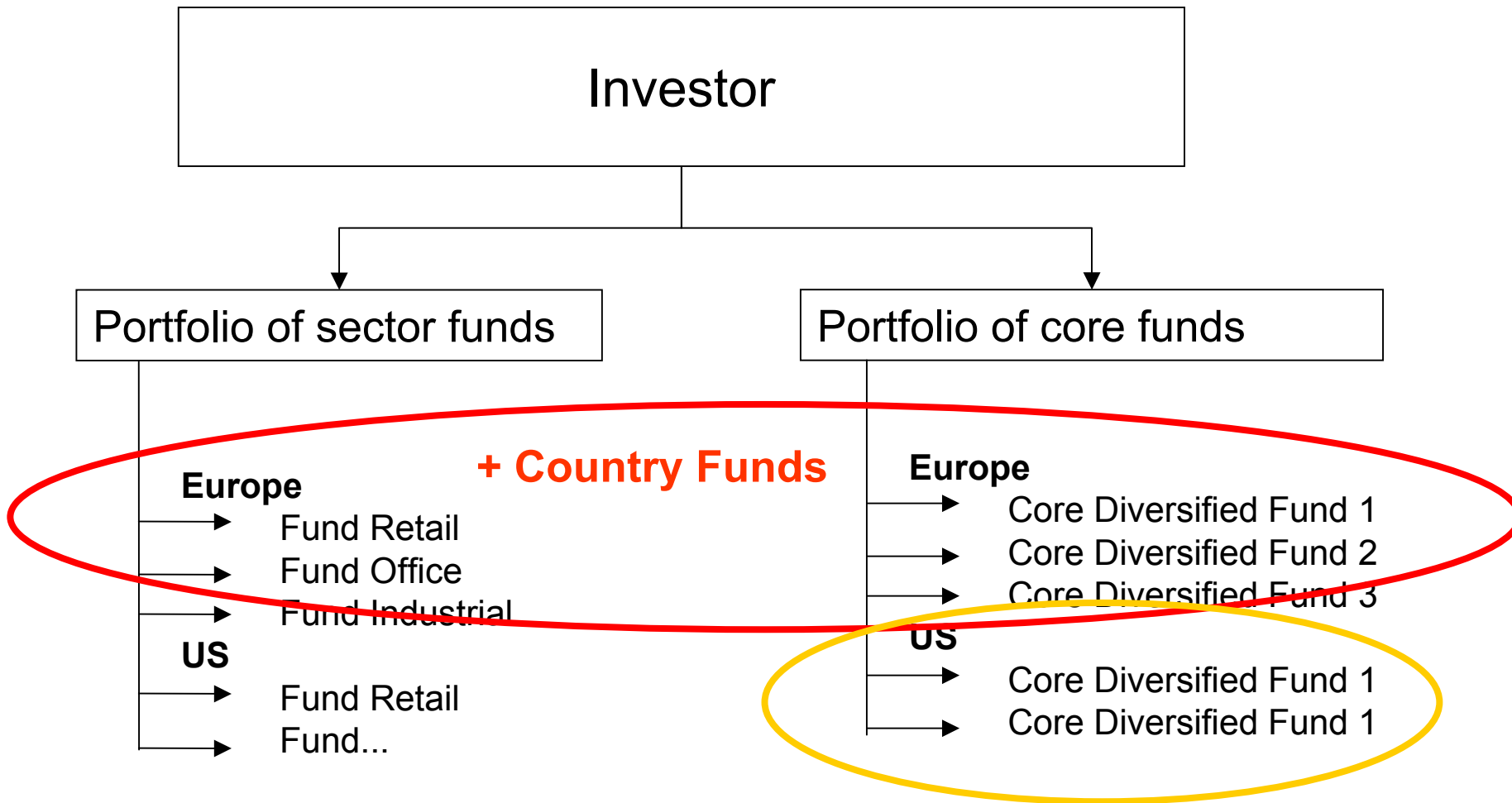
Structuring Non-listed Real Estate Portfolios (2)



Structuring Non-listed Real Estate Portfolios (3)

- Who is responsible for tactical decisions?
 - Sector / country funds ⇒ Investor
 - Diversified core funds ⇒ Manager
 - Investment volume?
 - The more country- or sector-specific funds, the higher
 - What funds are available?
 - Independent of what approach you choose
- ⇒ Diversify across funds = diversify across experience and capacity!

Structuring Non-listed Real Estate Portfolios (4)



Conclusion: Europe

- Lack of truly European products speaks for a combination of diversified / country / sector funds
 - ⇒ try to buy into existing portfolios and placing power!
- Minimum 3 – 5 funds ⇒ diversify across know how and capacity
- Decide on your preference regarding finite / infinite live
- Decide on degree of involvement (Spezialfonds)
- Legal structure: e.g. Spezialfonds, FCPs (⇒ tax efficient)
- Chances for a secondary market?

Conclusion: US

- Mature market with existing funds / portfolios
 - ⇒ immediate access to a portfolio of properties
- If you don't want to take decisions on the sector level:
 - ⇒ combine diversified funds
- Decide on return enhancement (core ⇒ opportunistic)
- Diversify across managers and products (capacity!)
- Legal structure: e.g. Private REIT (⇒ tax efficient)

What about Asia?

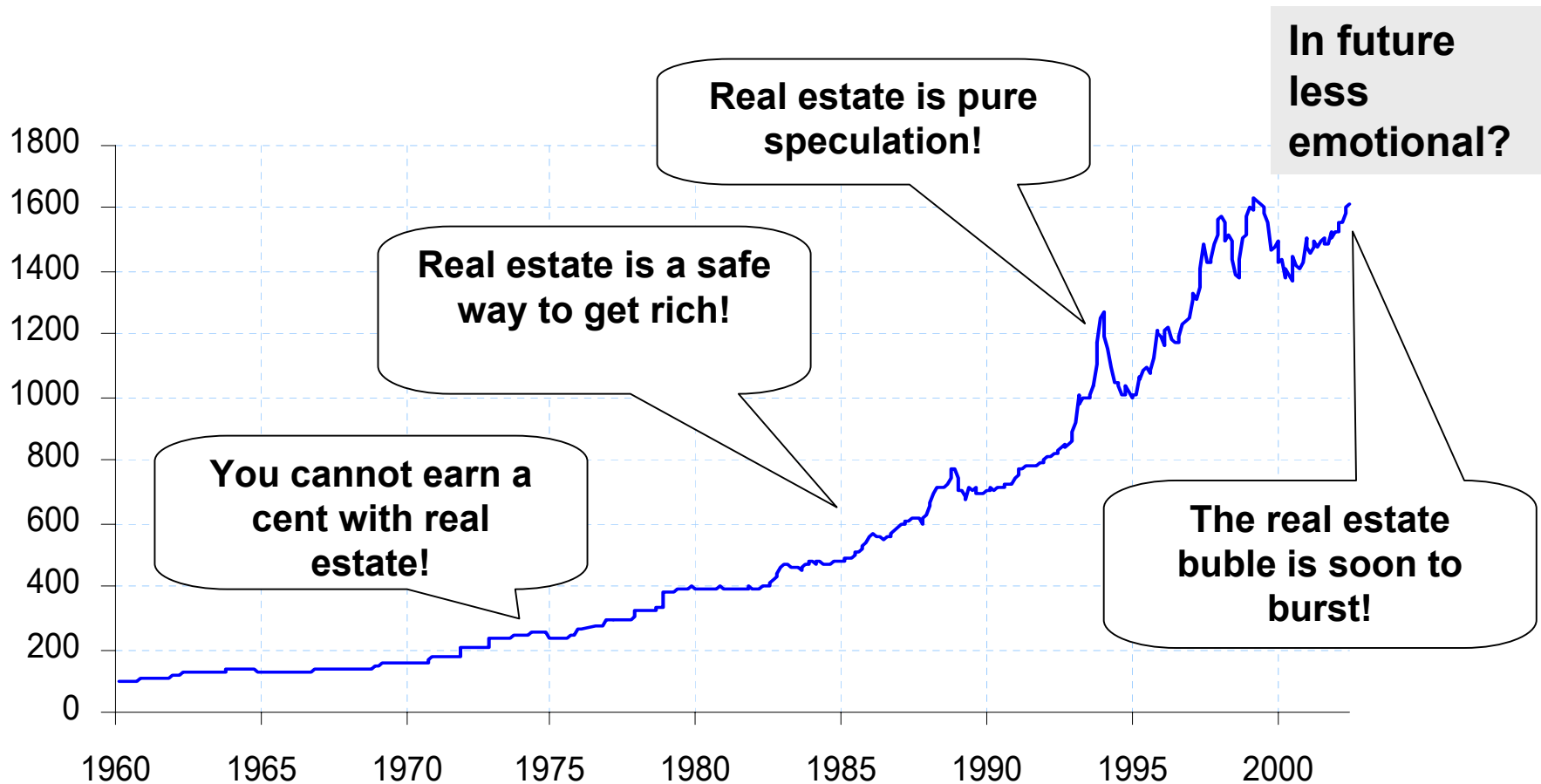
- Interesting new opportunities
- Requires higher risk appetite
- Due diligence and diversification key!
- Check tax consequences

- As usual, the 5 Ps
 - Product
 - Process
 - People
 - Price
 - Performance

- And importantly:
 - Experience
 - Valuation
 - Transparency
 - Investor queue / Capacity (yes, you read correctly)
 - Governance
 - Taxes

- And finally don't forget: currently real estate is a seller market!

Finally: What Does the Future Look Like?



Rüd Blass Immobilienfondsindex 1960 = 100